

Taxation Boot Camp

Presentation to the
Governor's Blue Ribbon Commission on Tax
Reform

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Today's Orders

- ✓ **The terminology of taxation**
- ✓ **An objective rating system for the principles of optimal taxation**
 - ✓ Elasticity,
 - ✓ Fairness or Equity,
 - ✓ Competitiveness,
 - ✓ Simplicity and compliance; and
 - ✓ Adequacy;
- ✓ **An aggregate assessment of Kentucky's current tax code, as seen by the experts**
 - ✓ Is our current code desirable?
 - ✓ Areas tagged for improvements, as identified by prior reform efforts
- ✓ **A tax-by-tax summary of Kentucky's main sources of revenue**

Tax Terminology

- ✓ **Measures of Taxation Across Income Strata**
 - ✓ **Progressivity** – Effective rate of taxation increases as levels of personal income increase
 - ✓ **Example:** Personal income tax with increasing rate brackets with higher levels of income
 - ✓ **Proportional** – Effective rate of taxation is constant across strata of personal income
 - ✓ **A flat tax for all levels of income**
 - ✓ **Regressivity** – Effective rate of taxation decreases as a percentage of personal income
 - ✓ **A sales tax on tangible property, excise taxes**
 - ✓ **Kentucky somewhat protected by exempting food and RX drugs, which are inelastically demanded**

Economic Efficiency – The Holy Grail

- ✓ All taxes should have a minimal or neutral effect on the optimal behavior individuals and businesses.
- ✓ An optimal tax system minimizes distortions to efficient behavior.
- ✓ All of the desirable properties of a free and open economy assume that economic agents (individuals and businesses) make their decisions on the economic merits of production functions and utility functions, not tax policy.

Tax Reform – Elasticity

- ✓ In particular, the General Fund elasticity of personal income growth (in relation to unity)
- ✓ Does the budgeted revenue increase at a rate commensurate with the economy?
 - ✓ Desirable in order to fund necessary government services, and
 - ✓ Desirable to sock away a Rainy Day Fund in times when the economy contracts
- ✓ Which taxes are the most elastic?
 - ✓ Broadest base, lowest rates

Tax Fairness

- ✓ The individual income tax is the primary tax type that introduces progressivity into a state tax system and thus affects the perception of fairness in the distribution of the tax burden.
- ✓ Horizontal equity (taxpayers with equal ability to pay should bear the same tax burden) and vertical equity (taxpayers with greater ability should have tax burdens at least equal to those with less ability to pay) are necessary to achieve equity.
- ✓ Tax bases should be defined as broadly as possible to reduce horizontal and vertical inequities caused by excluding economic activity from the base. Uniform tax rates should be applied to all sources of income, categories of consumption, or types of property that are included in the tax bases
- ✓ State credits and exemptions should be used to shelter low-income taxpayers from high effective tax rates, improving vertical equity. Credits, such as the property tax circuit breaker (statutory provisions which limit revenue growth when compared to economic growth) can also be implemented to reduce horizontal inequities between taxpayers living in different jurisdictions.
- ✓ There should be a balanced use of income, consumption, and property taxes in the overall state and the local tax system. At the local level, a tax system structured to include several broad-based tax options provides jurisdictions the flexibility to adjust the tax mixture to accommodate variations in ability to pay.

Tax Fairness

- ✓ To reduce horizontal inequities among taxpayers in different jurisdictions, the state should ensure uniformity in the definition and measurement of local tax bases and should establish an acceptable range of statutory tax rates
- ✓ The interpretation of fairness is largely subjective. However, expanding the base and lowering the rates of Kentucky's taxes is a win-win solution, mitigating equity effects while removing distortions caused by unnecessarily high tax rates.
- ✓ Some of the strongest criticism of Kentucky's tax code concerns its failure to adjust to changing costs of living. Rate classes, low-income credit thresholds, and personal credits have largely remained at their original levels. Addressing inflation, which has robbed Kentucky's income tax of its progressivity, would enhance vertical equity.

Tax Reform – Economic Growth

- **Economic growth** -- States compete with one another in the attraction and retention of individuals and businesses. Tax policy should not be a deterrent to either goal.
- **Transparency** --The taxpaying community must understand the system of taxation and fully understand the need for and uses of tax revenues.

Tax Reform – Competitiveness

- ✓ To reduce the distorting effects of state and local taxes on specific groups of taxpayers or types of economic activity, a balanced package of broad-based taxes with moderate marginal tax rates is desirable. **Taxes with high rates and narrow bases should be avoided.**
- ✓ Kentucky has lower than average business tax burdens and slightly higher than average individual tax burdens. For businesses, the income taxes present the most significant tax burdens in comparison with other states. For households, individual income taxes are generally the source of the greatest burden relative to other states.
- ✓ Kentucky's business taxes are "competitive" when compared to neighboring states.

Tax Reform – Adequacy

- ✓ A balanced use of income, consumption, property taxes and user fees should provide increased revenue stability over the economic cycle. The property tax and a broad-based sales tax that includes services, for example, get high marks in terms of cyclical stability.
- ✓ A balanced tax system would also contribute to sufficient growth in state and local taxes to match expenditure growth without frequent discretionary tax rate and base changes. This also contributes to reliability by providing taxpayers with greater certainty about their future tax liabilities as they make economic decisions.
- ✓ The corporate income tax represents a smaller percentage of state tax revenue and statewide personal income than the national average. Factors that affect the effective income tax rate, other than the income tax rate itself, include the determination of the taxable base, the apportionment formula used to determine the percentage of multi-state income attributable to the state, and the numerous economic development credits and other tax incentive measures meant to encourage investment in the state. Over the long-term, a number of economic, demographic, and political trends suggest that Kentucky's state and local system of revenue gathering might not be adequate.

Tax Reform – Adequacy

- ✓ Individuals are receiving a greater portion of their income from nontaxable sources. Consumers are purchasing an increasing amount of untaxed services and avoiding the sales tax through Internet or catalog purchases.
- ✓ Kentucky's population is aging at a faster rate than most states, and this will likely reduce some state and local tax receipts because elderly households tend to have lower consumer expenditures and to spend less on taxed items.
- ✓ Adequate revenue growth is achieved by adopting the proper balance of revenue instruments. The required balance will depend on specific characteristics of the tax structure. For example, income taxes grow faster relative to the economy with a more progressive income tax and sales taxes will grow more rapidly when broader taxation of services is adopted.

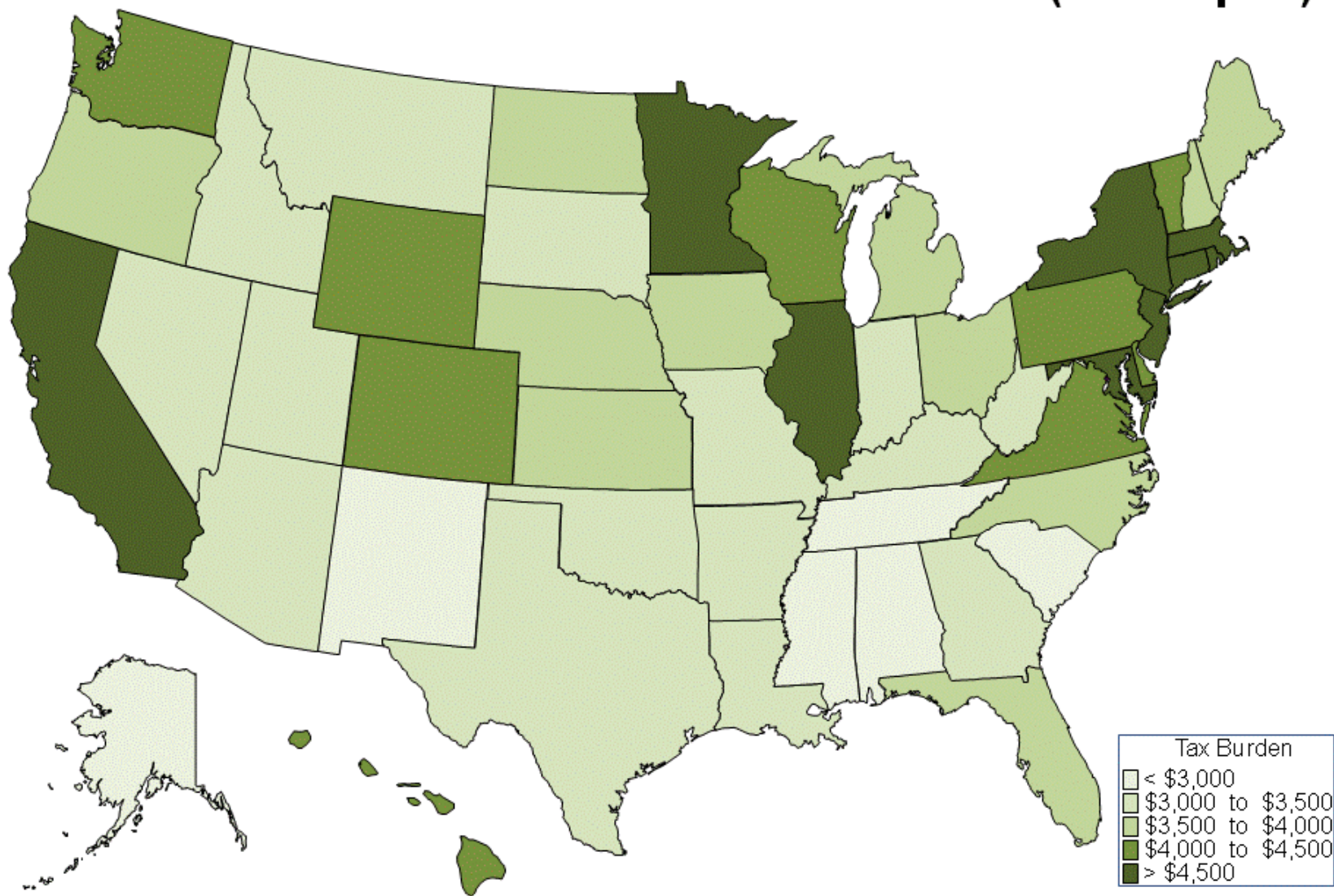
State and Local Tax Burden Per Capita

STATE	BURDEN	STATE	BURDEN	STATE	BURDEN
Alabama	\$ 2,967	Kentucky	\$ 3,059	N. Dakota	\$ 3,892
Alaska	\$ 2,973	Louisiana	\$ 3,037	Ohio	\$ 3,652
Arizona	\$ 3,140	Maine	\$ 3,832	Oklahoma	\$ 3,259
Arkansas	\$ 3,281	Maryland	\$ 5,218	Oregon	\$ 3,761
California	\$ 4,910	Mass.	\$ 5,316	Penn.	\$ 4,190
Colorado	\$ 4,011	Michigan	\$ 3,565	R. Island	\$ 4,647
Connecticut	\$ 7,256	Minnesota	\$ 4,651	S. Carolina	\$ 2,742
Delaware	\$ 4,091	Mississippi	\$ 2,678	S. Dakota	\$ 3,042
Florida	\$ 3,897	Missouri	\$ 3,425	Tennessee	\$ 2,752
Georgia	\$ 3,350	Montana	\$ 3,216	Texas	\$ 3,197
D.C.	\$ 6,076	Nebraska	\$ 3,960	Utah	\$ 3,349
Hawaii	\$ 4,399	Nevada	\$ 3,311	Vermont	\$ 4,181
Idaho	\$ 3,276	N. Hampshire	\$ 3,765	Virginia	\$ 4,392
Illinois	\$ 4,596	New Jersey	\$ 6,751	Washington	\$ 4,408
Indiana	\$ 3,396	N. Mexico	\$ 2,997	W. Virginia	\$ 3,034
Iowa	\$ 3,688	N. York	\$ 6,157	Wisconsin	\$ 4,427
Kansas	\$ 3,911	N. Carolina	\$ 3,583	Wyoming	\$ 4,205

State and Local Tax Burden (Per Capita)

Legend: Tax Burden

- < \$3,000
- \$3,000 to \$3,500
- \$3,500 to \$4,000
- \$4,000 to \$4,500
- > \$4,500



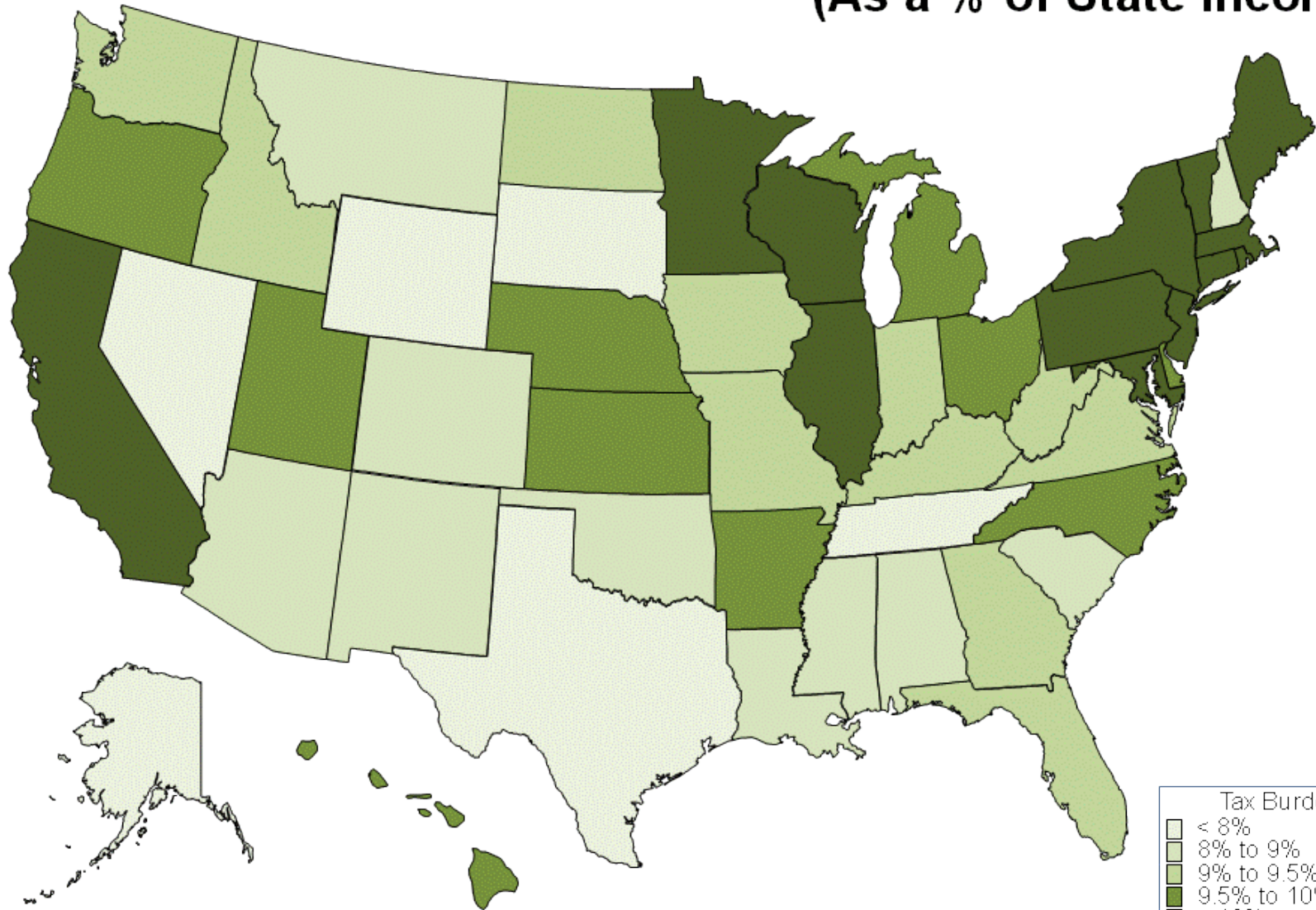
State and Local Tax Burden (% of S.P.I.)

STATE	RATE	STATE	RATE	STATE	RATE
Alabama	8.5%	Kentucky	9.3%	N. Dakota	9.5%
Alaska	6.3%	Louisiana	8.2%	Ohio	9.7%
Arizona	8.7%	Maine	10.1%	Oklahoma	8.7%
Arkansas	9.9%	Maryland	10.0%	Oregon	9.8%
California	10.6%	Mass.	10.0%	Penn.	10.1%
Colorado	8.6%	Michigan	9.7%	R. Island	10.7%
Connecticut	12.0%	Minnesota	10.3%	S. Carolina	8.1%
Delaware	9.6%	Mississippi	8.7%	S. Dakota	7.6%
Florida		Missouri	9.0%	Tennessee	7.6%
Georgia	9.2%	Montana	8.7%	Texas	7.9%
D.C.	9.1%	Nebraska	9.8%	Utah	9.7%
Hawaii	9.6%	Nevada	7.5%	Vermont	10.2%
Idaho	9.4%	N. Hampshire	8.0%	Virginia	9.1%
Illinois	10.0%	New Jersey	12.2%	Washington	9.3%
Indiana	9.5%	N. Mexico	8.4%	W. Virginia	9.4%
Iowa	9.5%	N. York	12.1%	Wisconsin	11.0%
Kansas	9.7%	N. Carolina	9.8%	Wyoming	7.8%

Map of the United States showing the tax burden as a percentage of state income.

Legend:

- < 8%
- 8% to 9%
- 9% to 9.5%
- 9.5% to 10%



Distribution of State and Local Tax Collections by Tax (2009)

Taxes	Kentucky	All States as a Whole
Individual Income	31.3%	21.3%
General Sales	20.6%	22.9%
Property	20.6%	33.4%
Selected Sales	16.9%	11.2%
Corporate Income	3.6%	3.6%
Other	6.9%	7.7%
Total	100%	100%

Source: Staff analysis of data from U.S. Census Bureau's State and Local Government Finances.

Distribution of State Tax Collections by Tax (2009)

Taxes	Kentucky	All States as a Whole
Individual Income	34.0%	34.4%
General Sales	29.3%	32.0%
Property	5.3%	1.8%
Selected Sales	18.5%	16.2%
Corporate Income	4.0%	5.5%
Other	8.8%	10.2%
Total	100%	100%

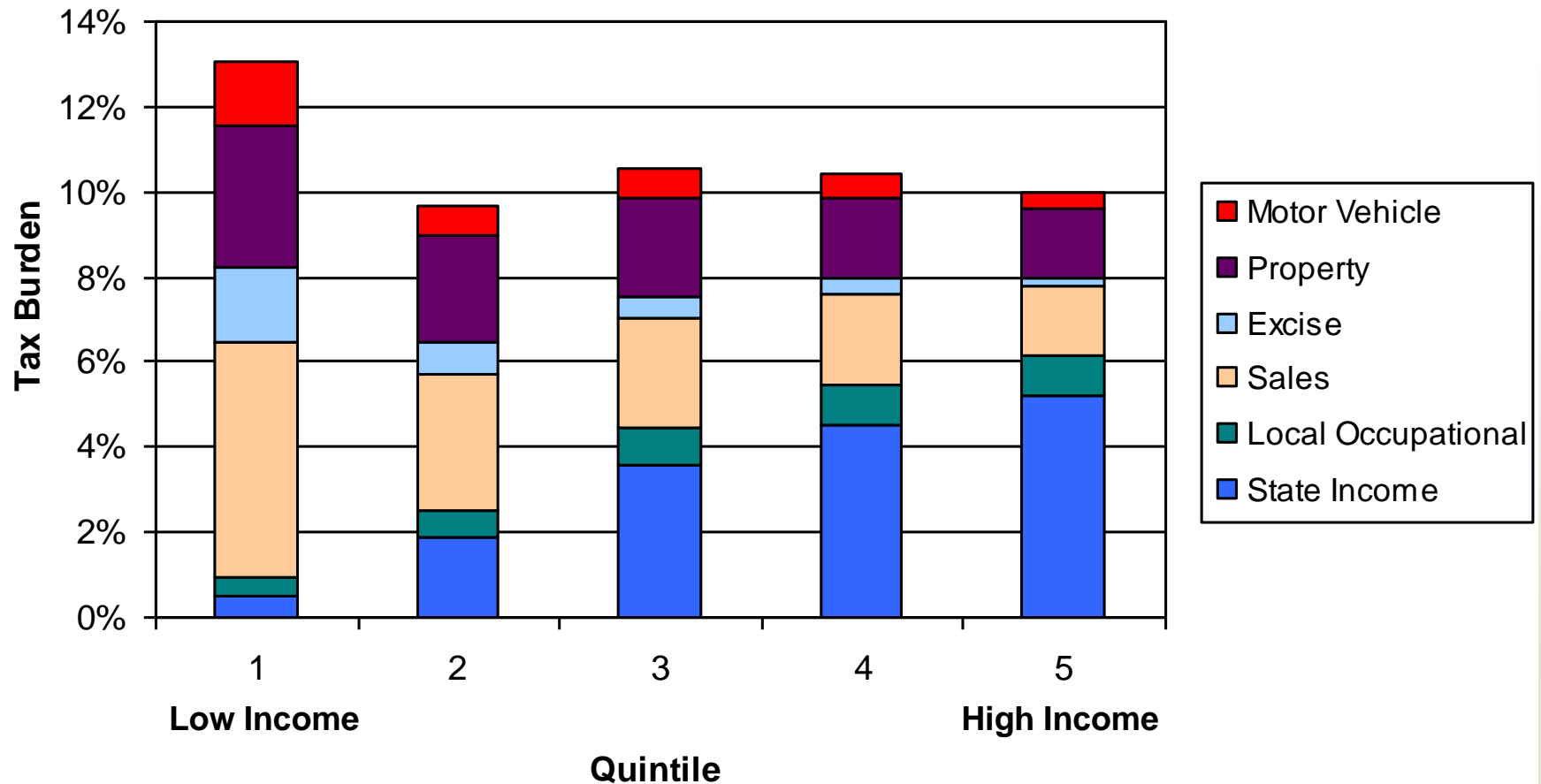
Source: Staff analysis of data from U.S. Census Bureau's State and Local Government Finances.

Distribution of Local Tax Collections by Tax (2009)

Taxes	Kentucky	All States as a Whole
Individual Income	24.8%	4.4%
General Sales	0%	11.2%
Property	56.8%	73.9%
Selected Sales	13.1%	4.8%
Corporate Income	2.8%	1.2%
Other	2.4%	4.4%
Total	100%	100%

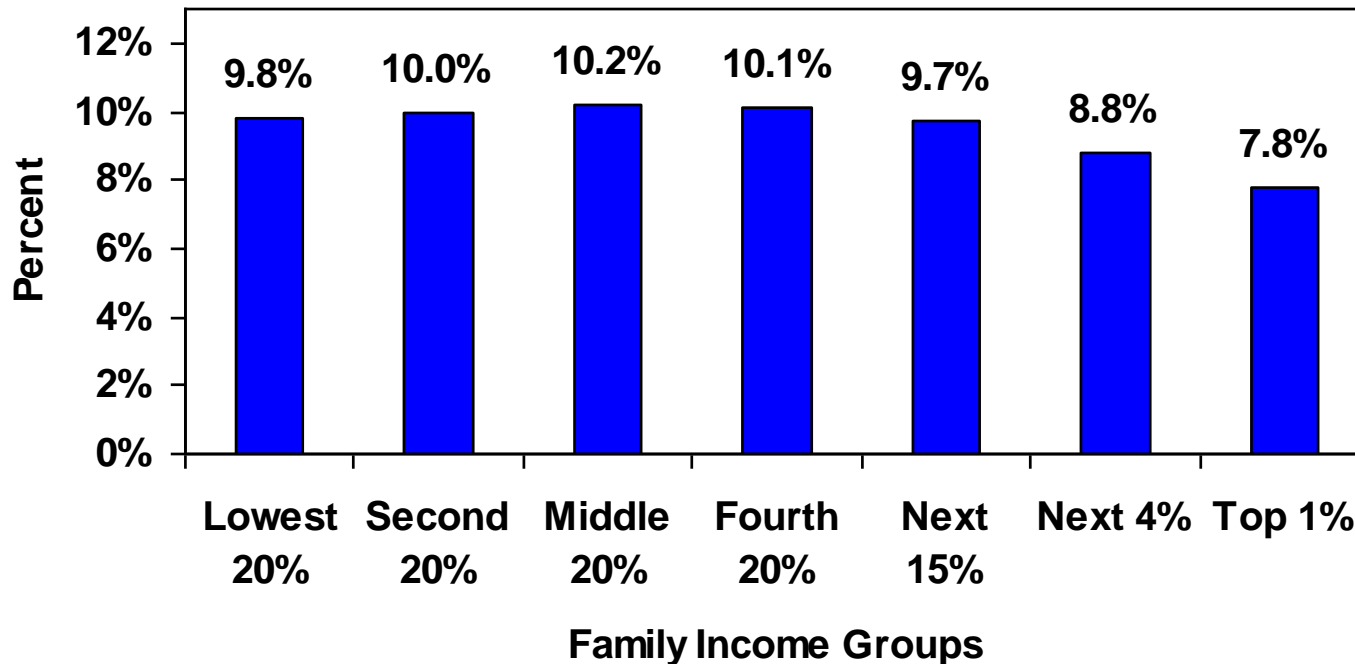
Source: Staff analysis of data from U.S. Census Bureau's State and Local Government Finances

Kentucky's Tax Burden by Family Income Quintile



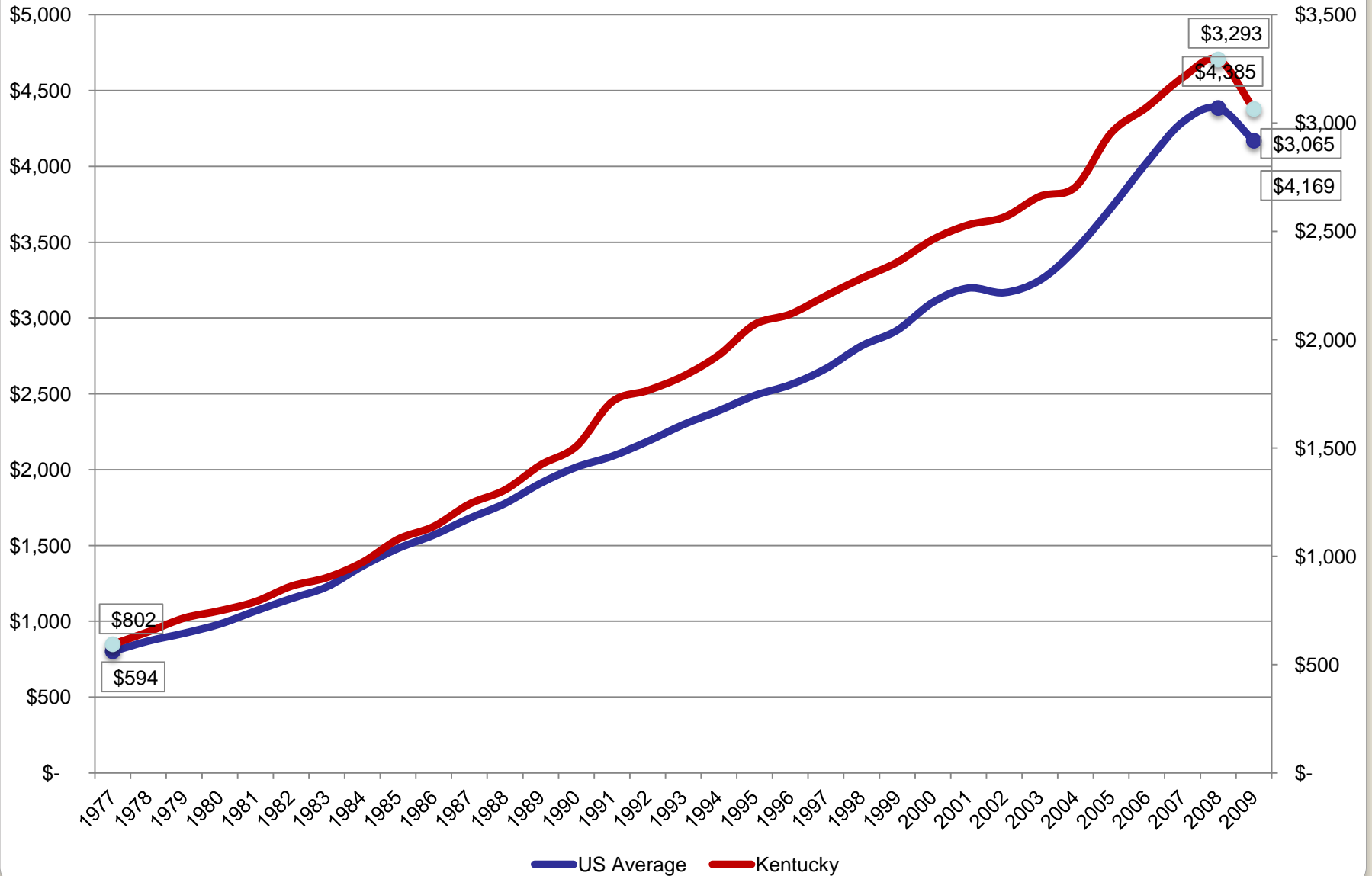
Institute on Taxation and Economic Policy

Kentucky State & Local Taxes in 2002 (Shares of Family Income for non-elderly Taxpayers)

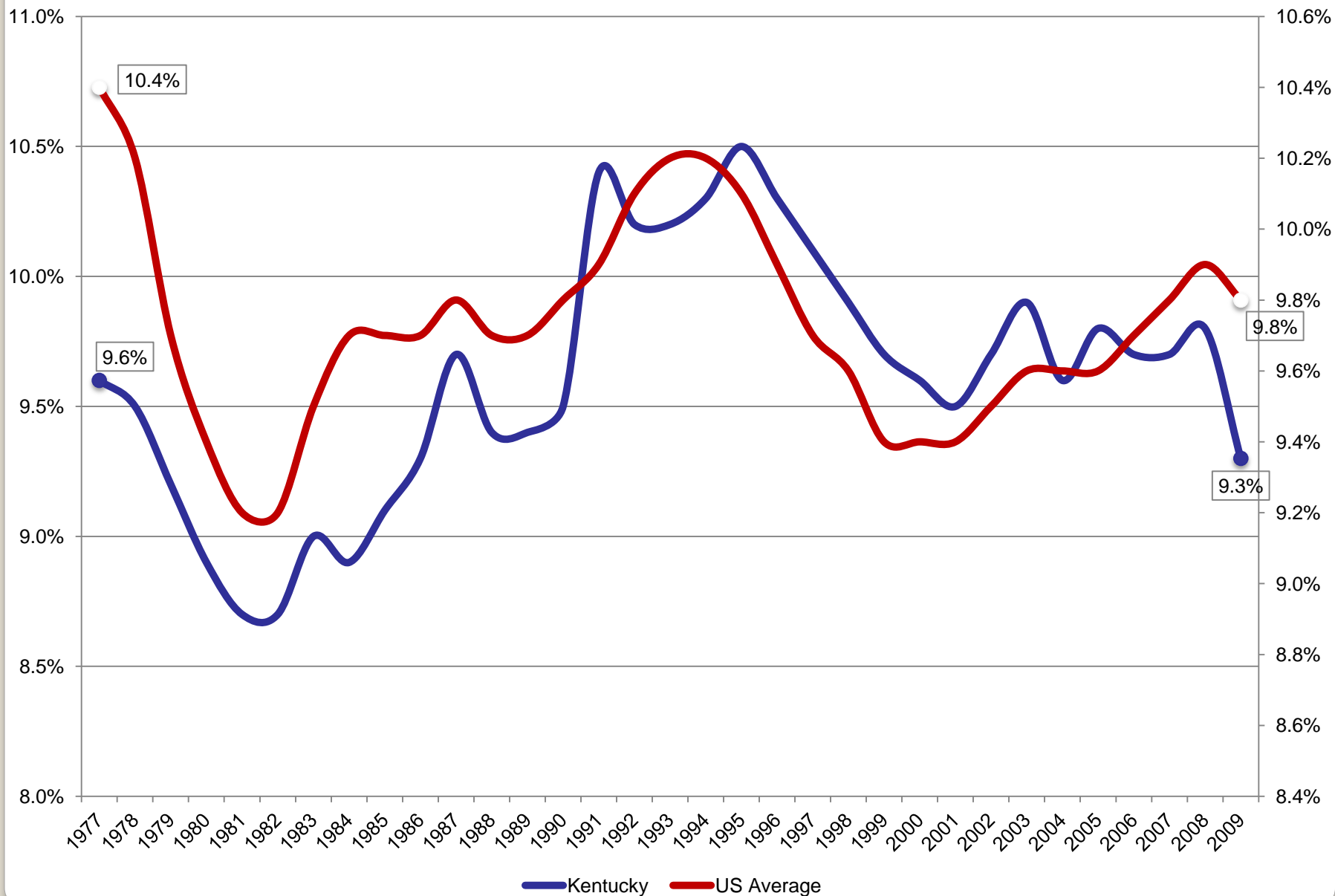


Source: Institute on Taxation and Economic Policy. "Who Pays? A Distributional Analysis of the Tax Systems of All 50 States." 2nd Edition. January 2003.

State and Local Taxes Paid (Per Capita)



State and Local Tax Burden



Individual Income Tax

KRS 141.020 & Various IRC Sections

Tax Base: The individual income tax is levied on taxable income. Taxable income is computed by reducing gross income by trade or business expenses and the standard deduction (\$2,210 for 2010) or at the option of the taxpayer by itemized deduction. Gross income is defined as gross income under the 2009 Internal Revenue Code with certain adjustments.

Base of Taxation is an offshoot of Federal Adjusted Gross Income

Individual Income Tax

Rates and Collection

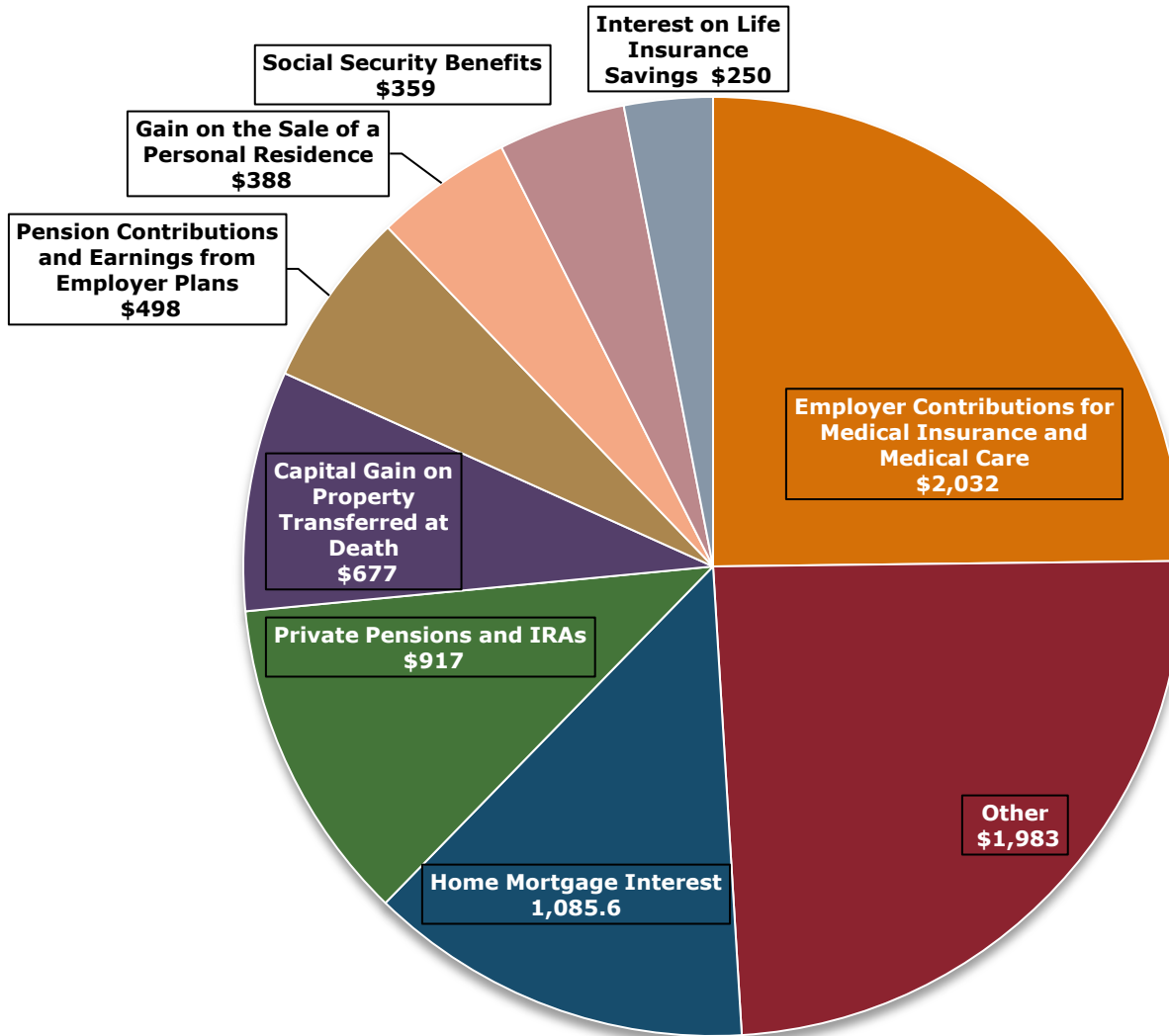
Tax Rate:	First	-	\$3,000	2%
	\$3,001	-	\$4,000	3%
	\$4,001	-	\$5,000	4%
	\$5,001	-	\$8,000	5%
	\$8,001	-	\$75,000	5.8%
	Over		\$75,000	6%

Total Receipts

Actual FY2011 \$3.4 billion

Tax Expenditures for FY2012 \$8.2 billion

Individual Income Tax Expenditures (Millions)



Personal Income Tax Rate (\$10,000 AGI)

STATE	RATE	STATE	RATE	STATE	RATE
Alabama	5.00%	Kentucky	5.80%	N. Dakota	1.51%
Alaska	0.00%	Louisiana	2.00%	Ohio	1.17%
Arizona	2.88%	Maine	7.00%	Oklahoma	5.25%
Arkansas	3.50%	Maryland	4.75%	Oregon	9.00%
California	2.00%	Mass.	5.30%	Penn.	3.07%
Colorado	4.63%	Michigan	4.35%	R. Island	3.75%
Connecticut	5.00%	Minnesota	5.35%	S. Carolina	5.00%
Delaware	4.80%	Mississippi	5.00%	S. Dakota	0.00%
Florida	6.00%	Missouri	6.00%	Tennessee	6.00%
Georgia	0.00%	Montana	5.00%	Texas	0.00%
D.C.	6.00%	Nebraska	3.57%	Utah	5.00%
Hawaii	6.40%	Nevada	0.00%	Vermont	3.55%
Idaho	7.10%	N. Hampshire	5.00%	Virginia	5.00%
Illinois	5.00%	New Jersey	1.40%	Washington	0.00%
Indiana	3.40%	N. Mexico	3.20%	W. Virginia	4.00%
Iowa	4.50%	N. York	4.50%	Wisconsin	4.60%
Kansas	3.50%	N. Carolina	6.00%	Wyoming	0.00%

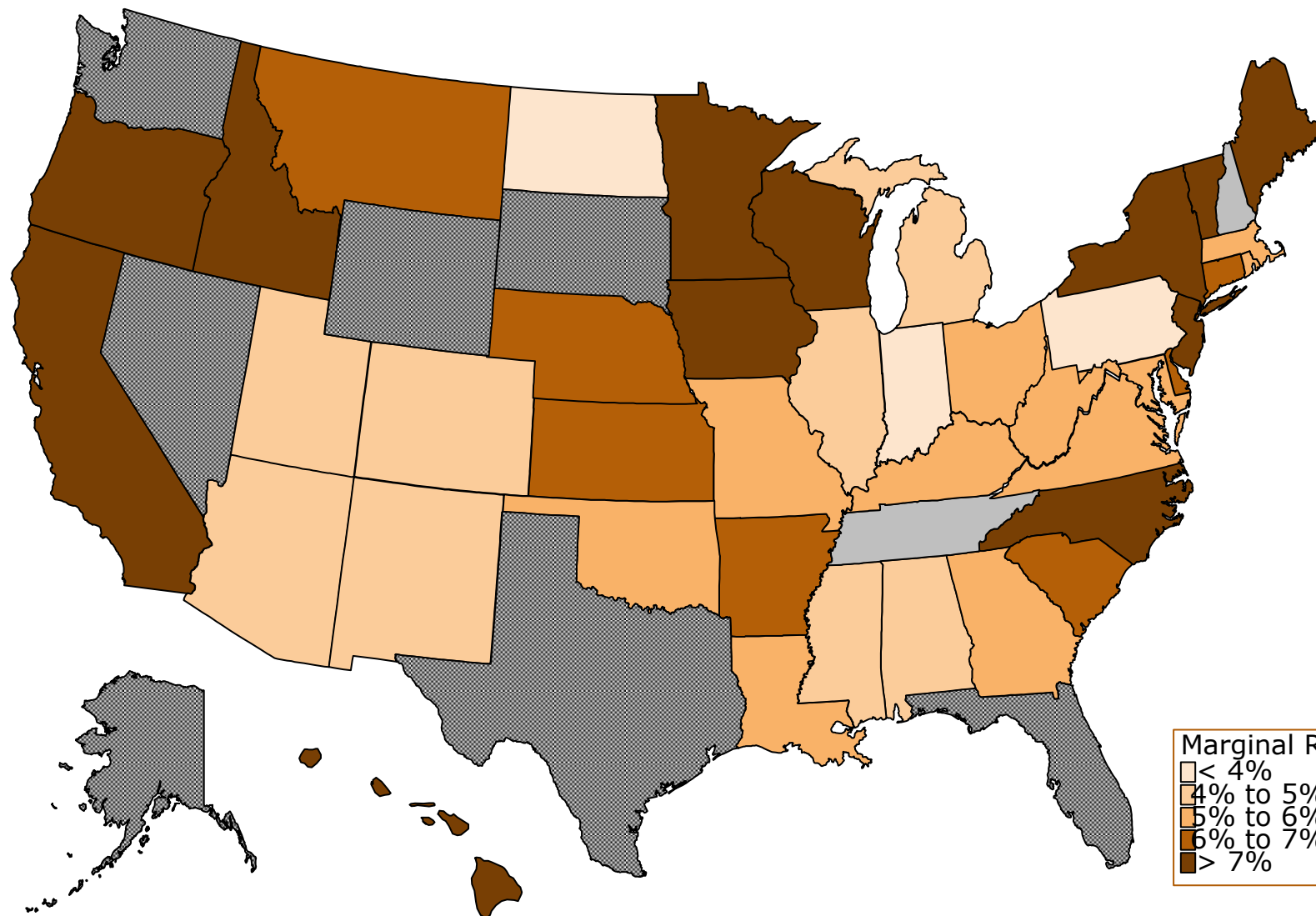
Personal Income Tax Rate (\$100,000 AGI)

STATE	RATE	STATE	RATE	STATE	RATE
Alabama	5.00%	Kentucky	6.00%	N. Dakota	3.13%
Alaska	0.00%	Louisiana	6.00%	Ohio	4.70%
Arizona	4.54%	Maine	8.50%	Oklahoma	5.25%
Arkansas	7.00%	Maryland	4.75%	Oregon	9.00%
California	9.30%	Mass.	5.30%	Penn.	3.07%
Colorado	4.63%	Michigan	4.35%	R. Island	4.75%
Connecticut	6.00%	Minnesota	7.85%	S. Carolina	7.00%
Delaware	6.75%	Mississippi	5.00%	S. Dakota	0.00%
Florida	8.50%	Missouri	6.00%	Tennessee	6.00%
Georgia	0.00%	Montana	6.90%	Texas	0.00%
D.C.	6.00%	Nebraska	6.84%	Utah	5.00%
Hawaii	8.25%	Nevada	0.00%	Vermont	7.80%
Idaho	7.80%	N. Hampshire	5.00%	Virginia	5.75%
Illinois	5.00%	New Jersey	6.37%	Washington	0.00%
Indiana	3.40%	N. Mexico	4.90%	W. Virginia	6.00%
Iowa	8.98%	N. York	6.65%	Wisconsin	6.50%
Kansas	6.45%	N. Carolina	7.75%	Wyoming	0.00%

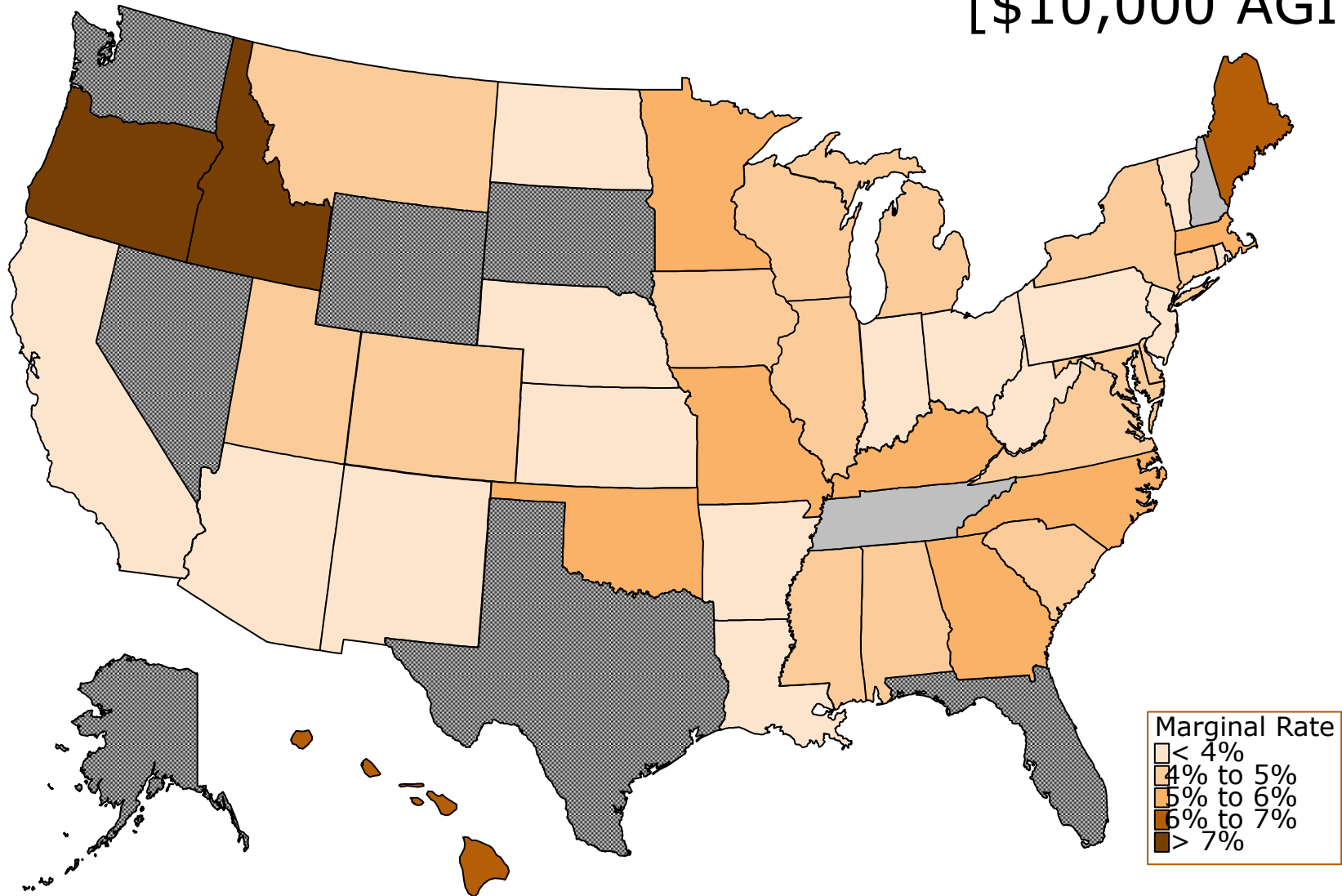
Highest Marginal Income Tax Rate

Marginal Rate

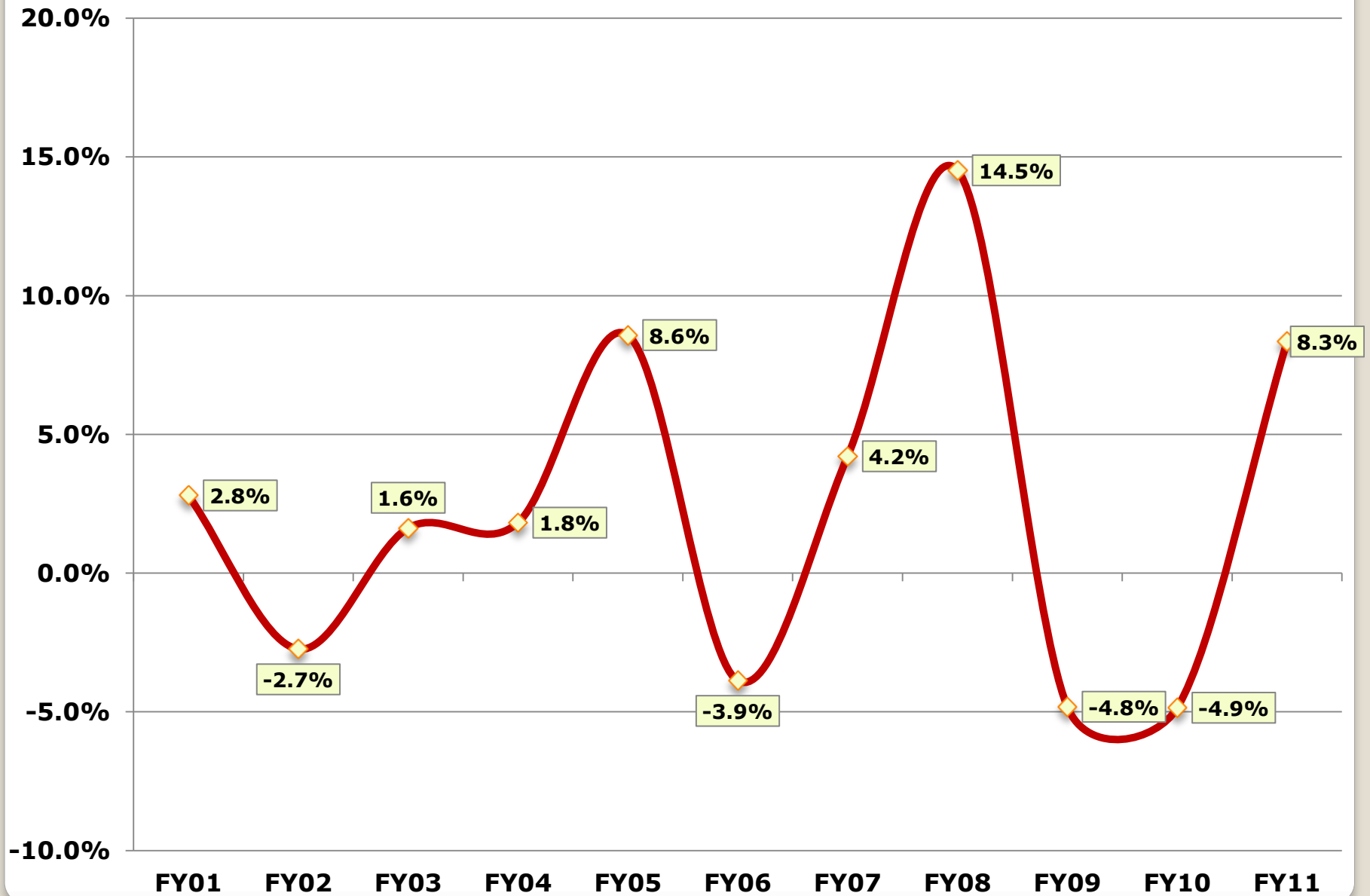
- < 4%
- 4% to 5%
- 5% to 6%
- 6% to 7%
- > 7%



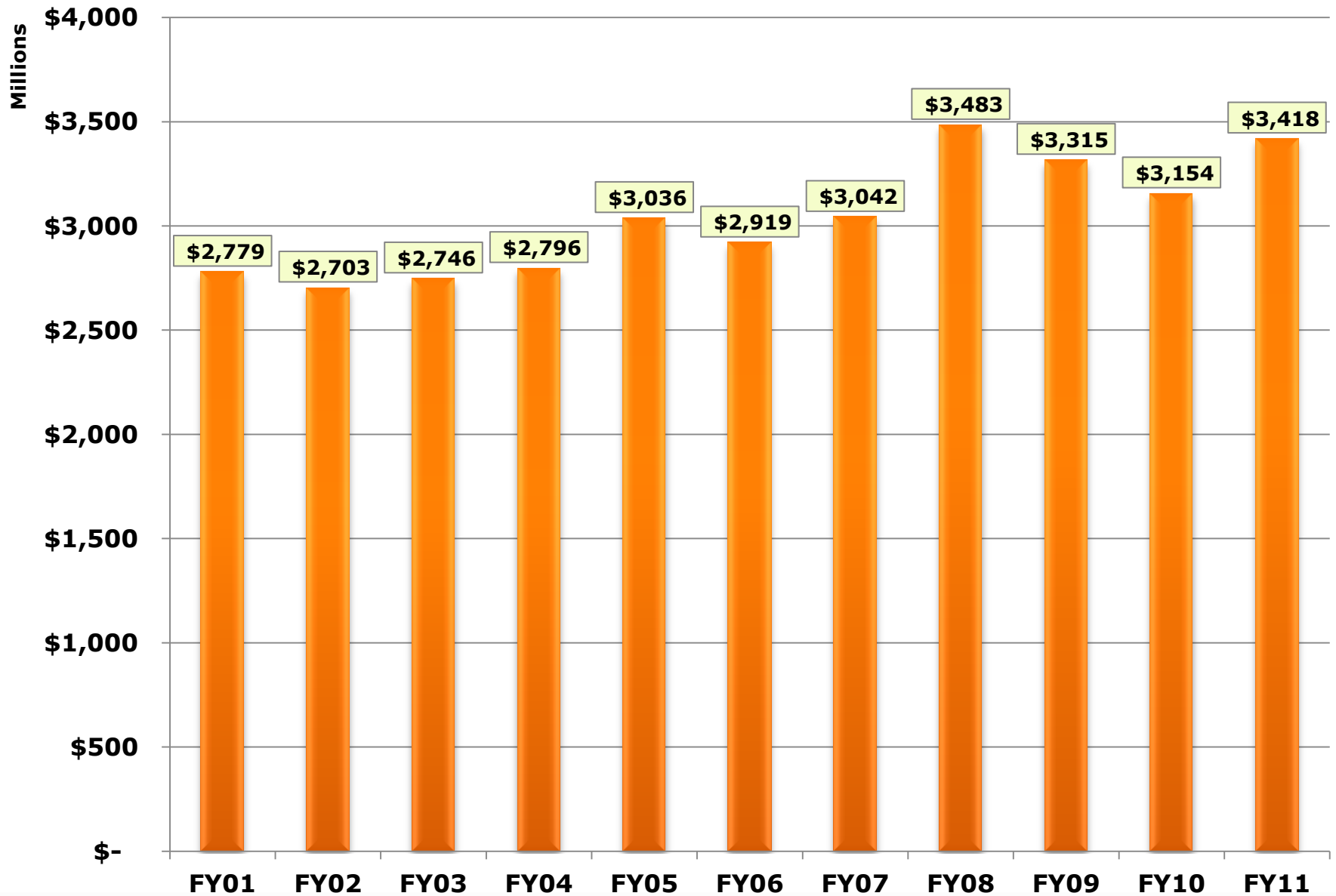
Personal Income Tax Rate [\$10,000 AGI]



Individual Income



Individual Income



Sales Tax

Imposition in KRS 139.200

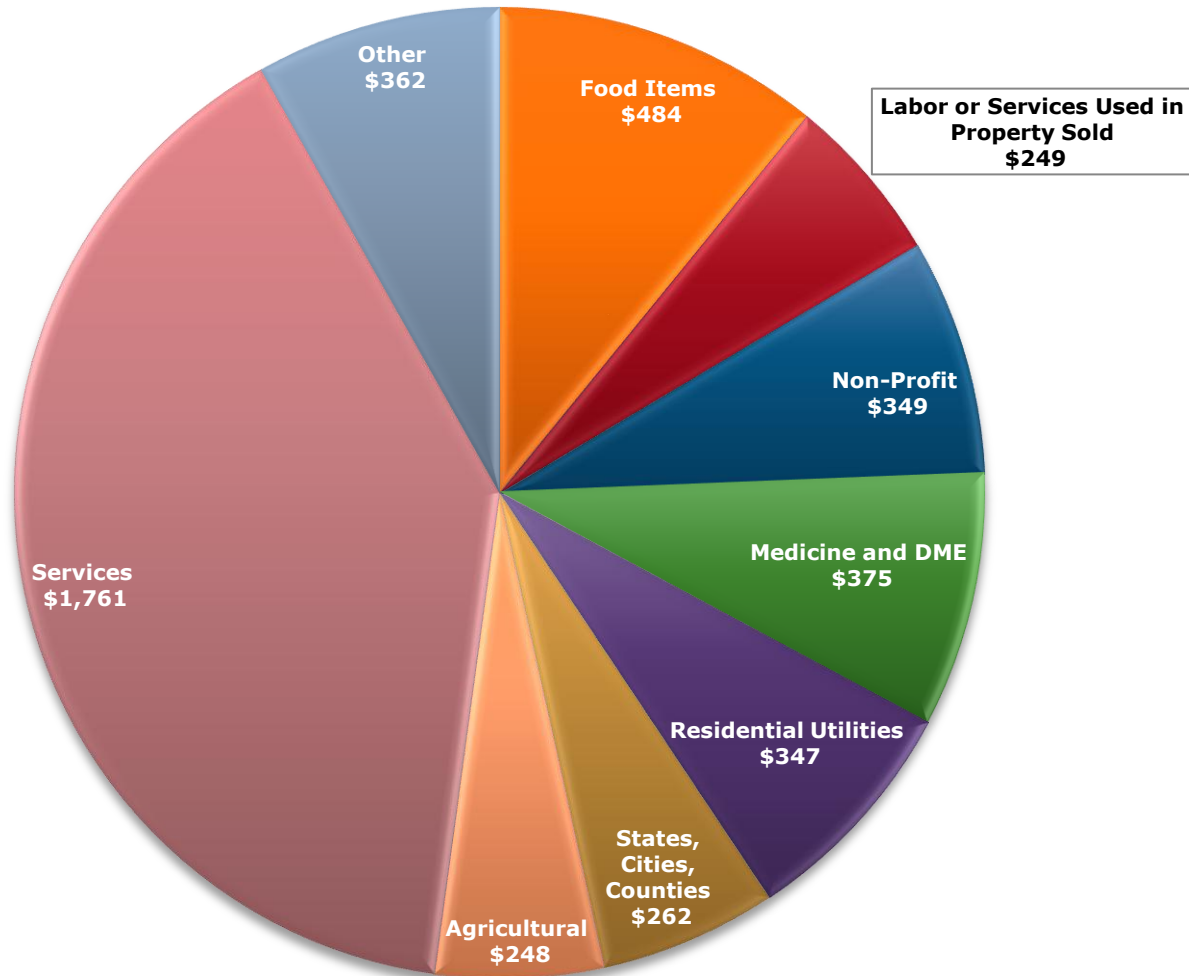
Tax Base: The tax base for the sales tax is gross receipts derived from both retail sales of tangible personal property and sales of certain services to the final consumer in Kentucky. The tax base for the use tax is the purchase price of tangible personal property purchased for storage, use, or other consumption in Kentucky.

Tax Rate: Sales and use taxes are imposed at the rate of 6 percent of gross receipts or purchase price.

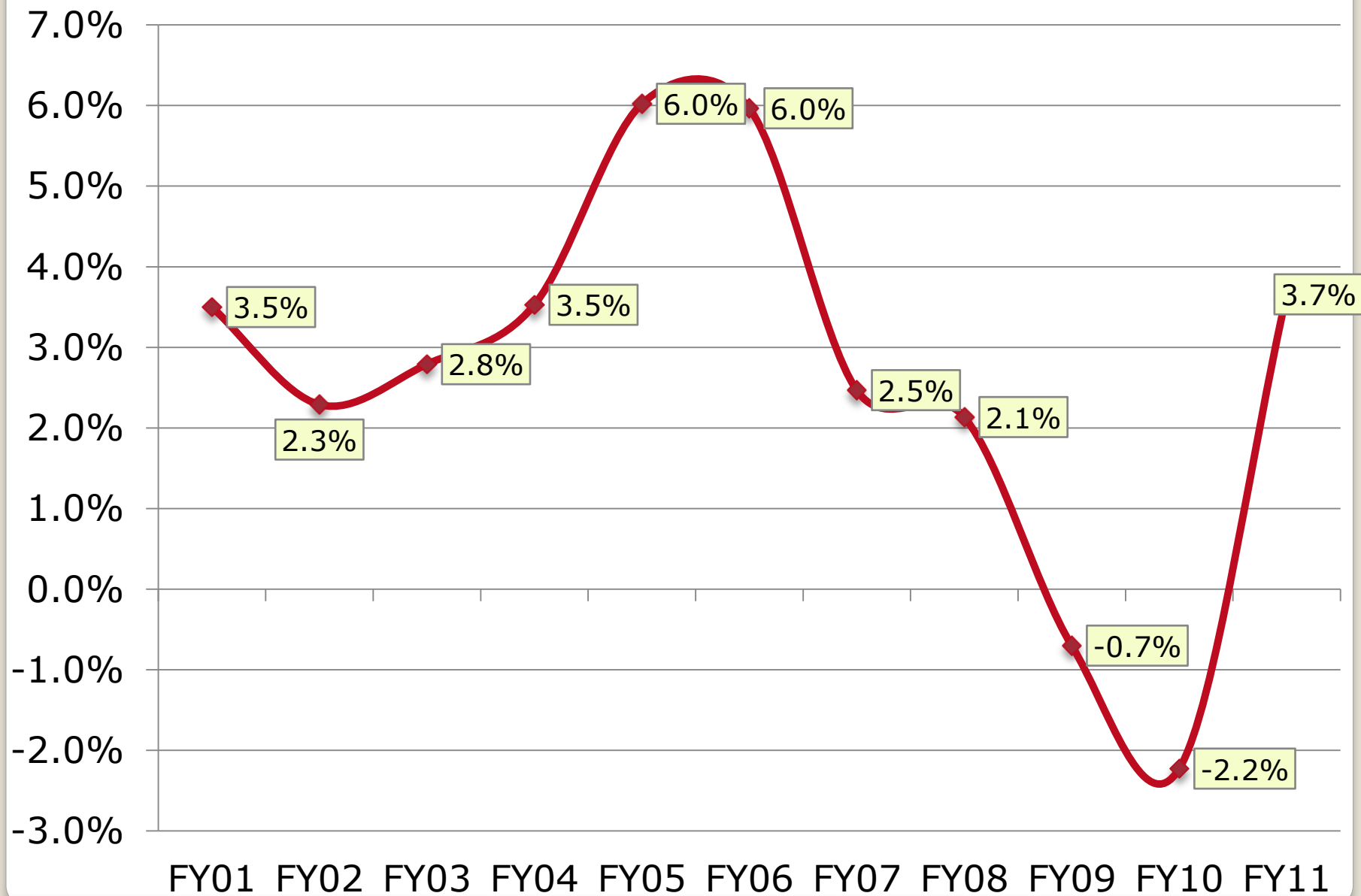
Tax Receipts:

Actual FY2011	\$2.896 billion
Tax Expenditures for FY12	\$2.676 billion

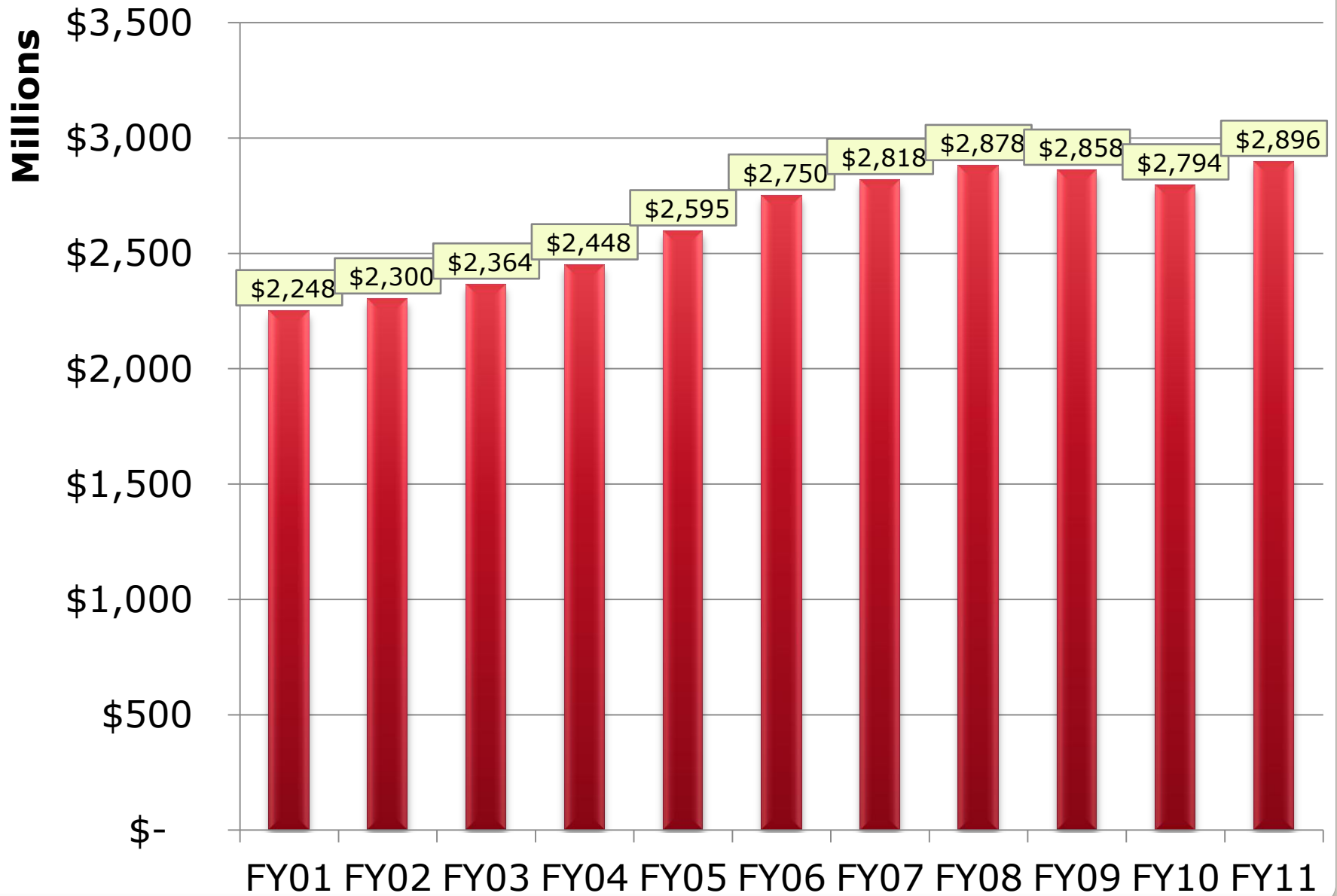
Sales Tax Expenditures (Millions)



Sales and Use



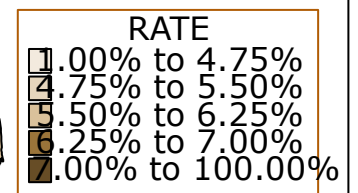
Sales and Use



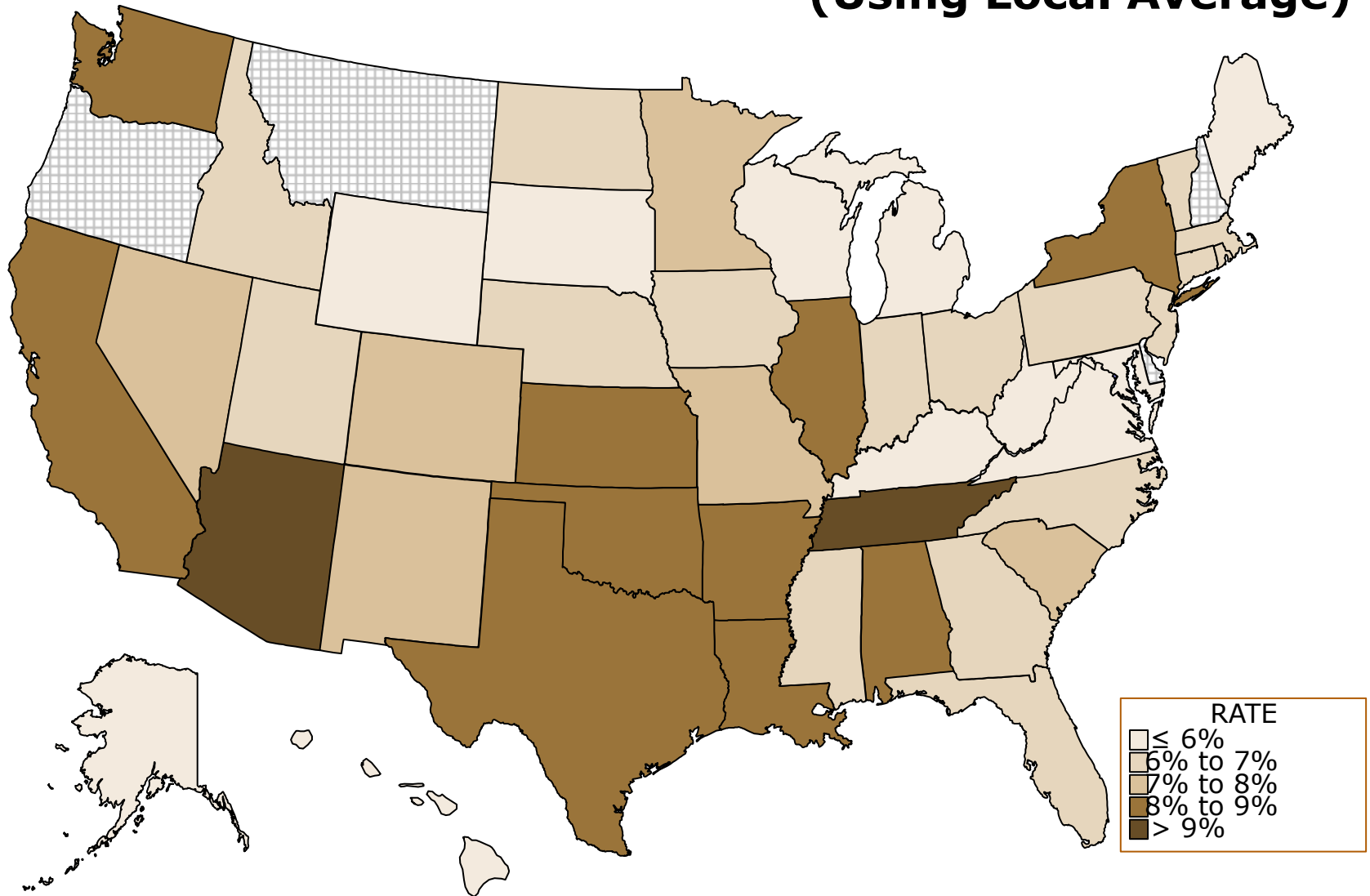
State Sales Tax

RATE

- 0.00% to 4.75%
- 4.75% to 5.50%
- 5.50% to 6.25%
- 6.25% to 7.00%
- 7.00% to 100.00%



State and Local Sales Tax (Using Local Average)



State Sales Tax Rate

STATE	RATE	STATE	RATE	STATE	RATE
Alabama	4.00%	Kentucky	6.00%	N. Dakota	5.00%
Alaska	0.00%	Louisiana	4.00%	Ohio	5.50%
Arizona	6.60%	Maine	5.00%	Oklahoma	4.50%
Arkansas	6.00%	Maryland	6.00%	Oregon	0.00%
California	7.25%	Mass.	6.25%	Penn.	6.00%
Colorado	2.90%	Michigan	6.00%	R. Island	7.00%
Connecticut	6.35%	Minnesota	6.88%	S. Carolina	6.00%
Delaware	0.00%	Mississippi	7.00%	S. Dakota	4.00%
Florida	6.00%	Missouri	4.23%	Tennessee	7.00%
Georgia	6.00%	Montana	0.00%	Texas	6.25%
D.C.	4.00%	Nebraska	5.50%	Utah	5.95%
Hawaii	4.00%	Nevada	6.85%	Vermont	6.00%
Idaho	6.00%	N. Hampshire	0.00%	Virginia	5.00%
Illinois	6.25%	New Jersey	7.00%	Washington	6.50%
Indiana	7.00%	N. Mexico	5.13%	W. Virginia	6.00%
Iowa	6.00%	N. York	4.00%	Wisconsin	5.00%
Kansas	6.30%	N. Carolina	4.75%	Wyoming	4.00%

State and Local Sales Tax Rate (Local Average)

STATE	RATE	STATE	RATE	STATE	RATE
Alabama	8.33%	Kentucky	6.00%	N. Dakota	6.39%
Alaska	1.77%	Louisiana	8.85%	Ohio	6.75%
Arizona	9.12%	Maine	5.00%	Oklahoma	8.66%
Arkansas	8.58%	Maryland	6.00%	Oregon	0.00%
California	8.11%	Mass.	6.25%	Penn.	6.34%
Colorado	7.44%	Michigan	6.00%	R. Island	7.00%
Connecticut	6.35%	Minnesota	7.18%	S. Carolina	7.13%
Delaware	0.00%	Mississippi	7.00%	S. Dakota	5.39%
Florida	6.00%	Missouri	7.49%	Tennessee	9.45%
Georgia	6.62%	Montana	0.00%	Texas	8.14%
D.C.	6.84%	Nebraska	6.77%	Utah	6.68%
Hawaii	4.35%	Nevada	7.93%	Vermont	6.14%
Idaho	6.02%	N. Hampshire	0.00%	Virginia	5.00%
Illinois	8.20%	New Jersey	6.97%	Washington	8.80%
Indiana	7.00%	N. Mexico	7.25%	W. Virginia	6.00%
Iowa	6.81%	N. York	8.48%	Wisconsin	5.43%
Kansas	8.26%	N. Carolina	6.85%	Wyoming	5.34%

Coal Severance

Imposition in KRS 143.020 et al.

Tax Base: The tax is levied on the gross value of the coal. Gross value is the amount received or receivable for the coal, or market value if the coal is consumed and not sold, less transportation expense.

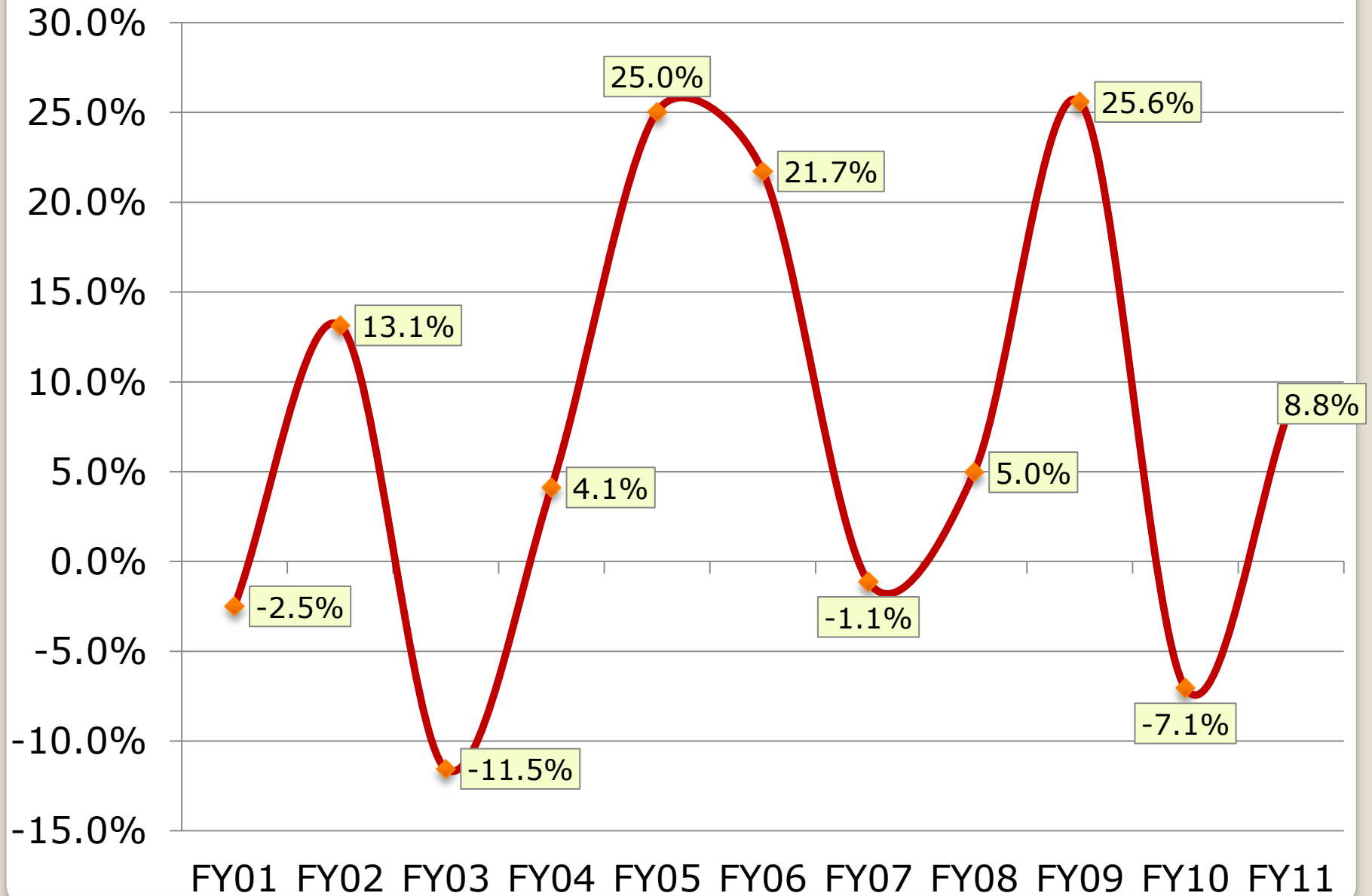
Tax Rate: 4.5 percent of gross value with a minimum tax of fifty cents per ton. The minimum tax does not apply in the case of taxpayers who only process coal. For coal used for burning solid waste the tax is limited to the lesser of 4 percent of the selling price or fifty cents per ton.

Total Receipts

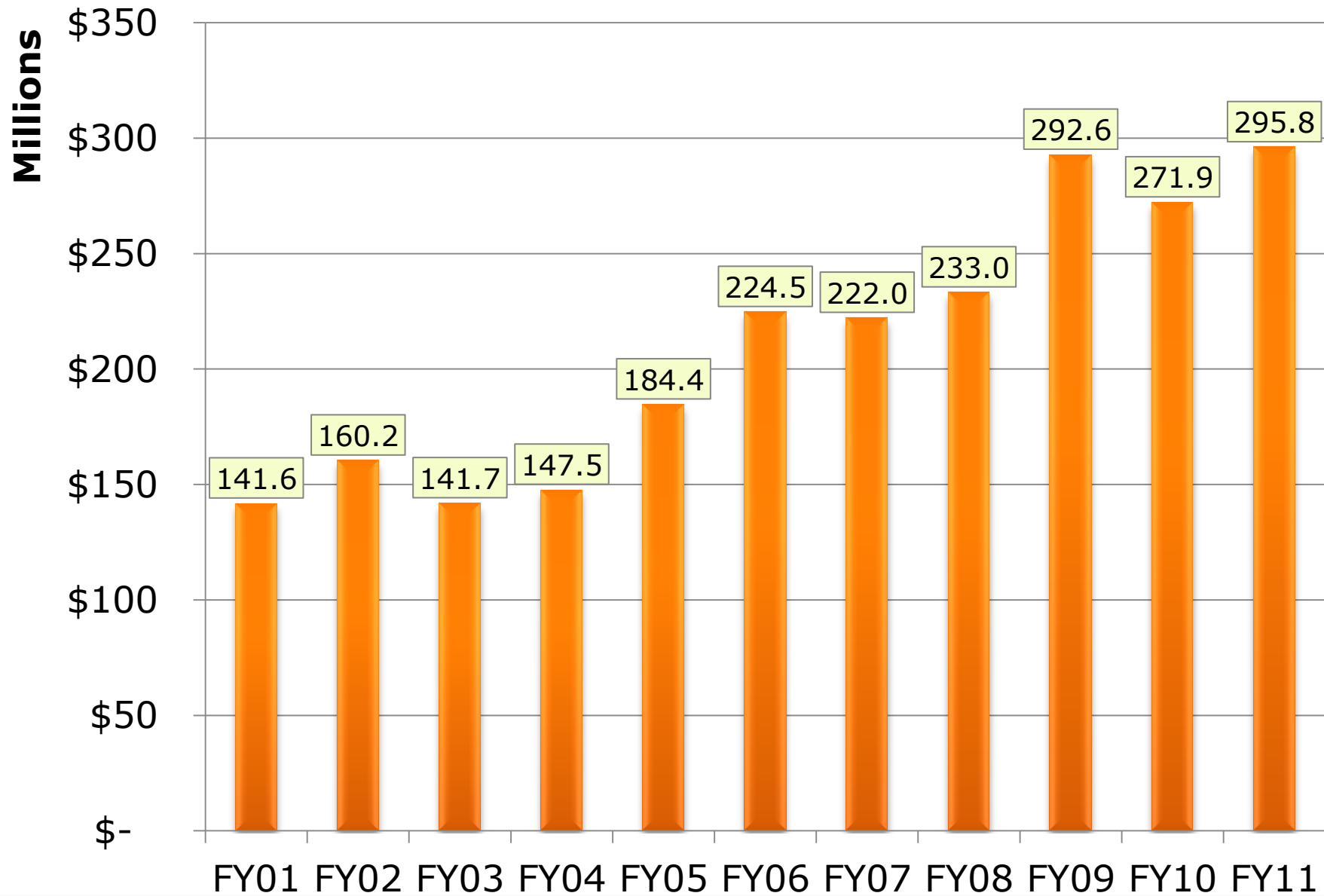
Actual FY2011	\$295.8 million
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Tax Expenditures for FY2012	\$2.4 million
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Coal Severance



Coal Severance



Corporate Income Tax

Imposition in KRS 141.040

Tax Base: The tax base for the corporation income tax is taxable net income. Taxable net income is essentially gross income minus allowable deductions, with apportionment and allocation provisions for multistate corporations.

Tax Rate:	First \$50,000	4.0%
	\$50,000 to \$100,000	5.0%
	Over - \$100,000	6.0%

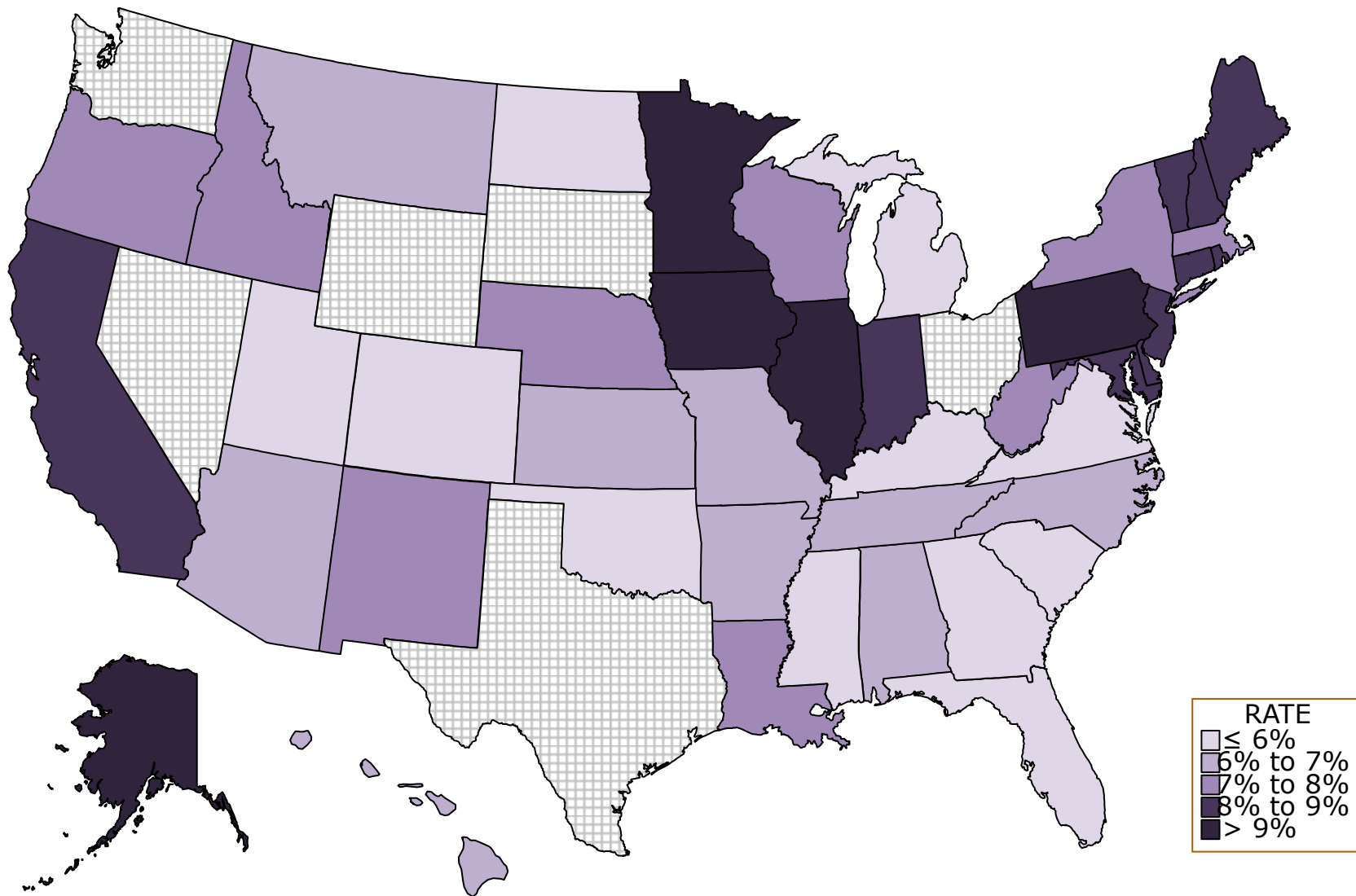
Total Receipts

Actual FY2011	\$300.8 million
Tax Expenditures for FY2012	\$292.3 million

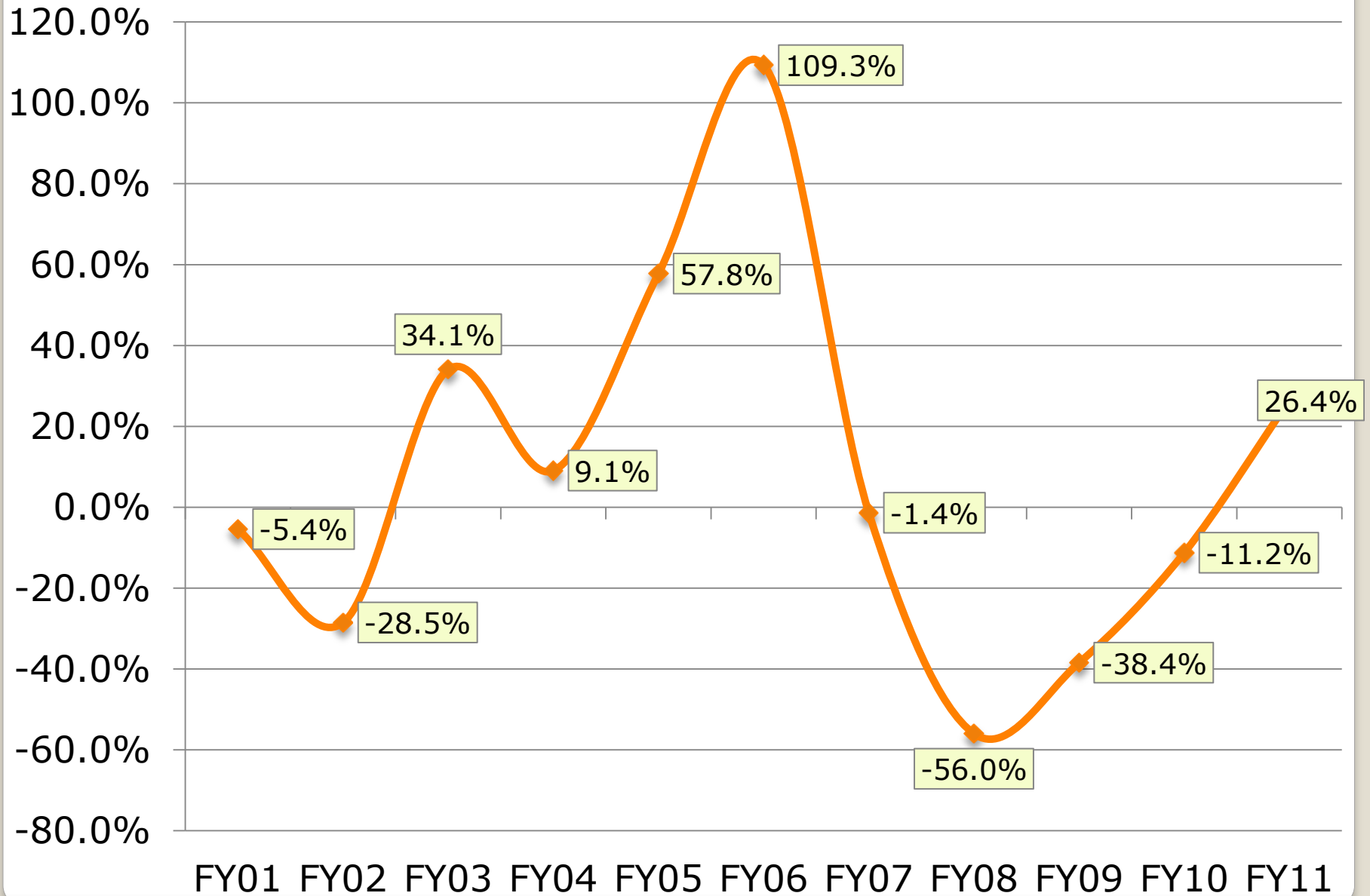
Top Corporate Income Tax Rate

STATE	RATE	STATE	RATE	STATE	RATE
Alabama	6.50%	Kentucky	6.00%	N. Dakota	5.20%
Alaska	9.40%	Louisiana	8.00%	Ohio	0.00%
Arizona	6.97%	Maine	8.93%	Oklahoma	6.00%
Arkansas	6.50%	Maryland	8.25%	Oregon	7.60%
California	8.84%	Mass.	8.00%	Penn.	9.99%
Colorado	4.63%	Michigan	6.00%	R. Island	9.00%
Connecticut	9.00%	Minnesota	9.80%	S. Carolina	5.00%
Delaware	8.70%	Mississippi	5.00%	S. Dakota	0.00%
Florida	9.98%	Missouri	6.25%	Tennessee	6.50%
Georgia	5.50%	Montana	6.75%	Texas	0.00%
D.C.	6.00%	Nebraska	7.81%	Utah	5.00%
Hawaii	6.40%	Nevada	0.00%	Vermont	8.50%
Idaho	7.60%	N. Hampshire	8.50%	Virginia	6.00%
Illinois	9.50%	New Jersey	9.00%	Washington	0.00%
Indiana	8.50%	N. Mexico	7.60%	W. Virginia	7.75%
Iowa	12.00%	N. York	7.10%	Wisconsin	7.90%
Kansas	7.00%	N. Carolina	6.90%	Wyoming	0.00%

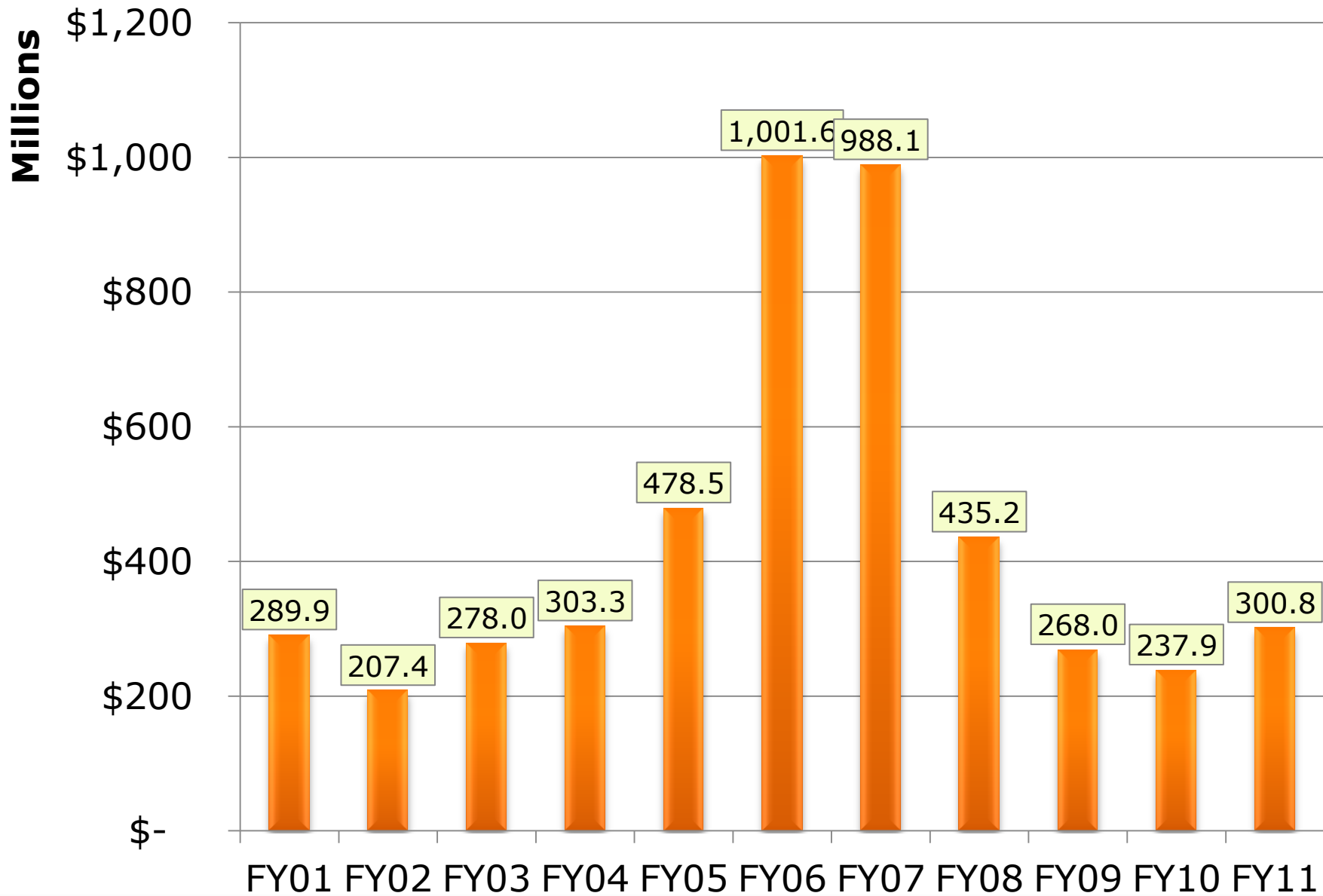
Top Corporate Income Tax Rate



Corporation Income

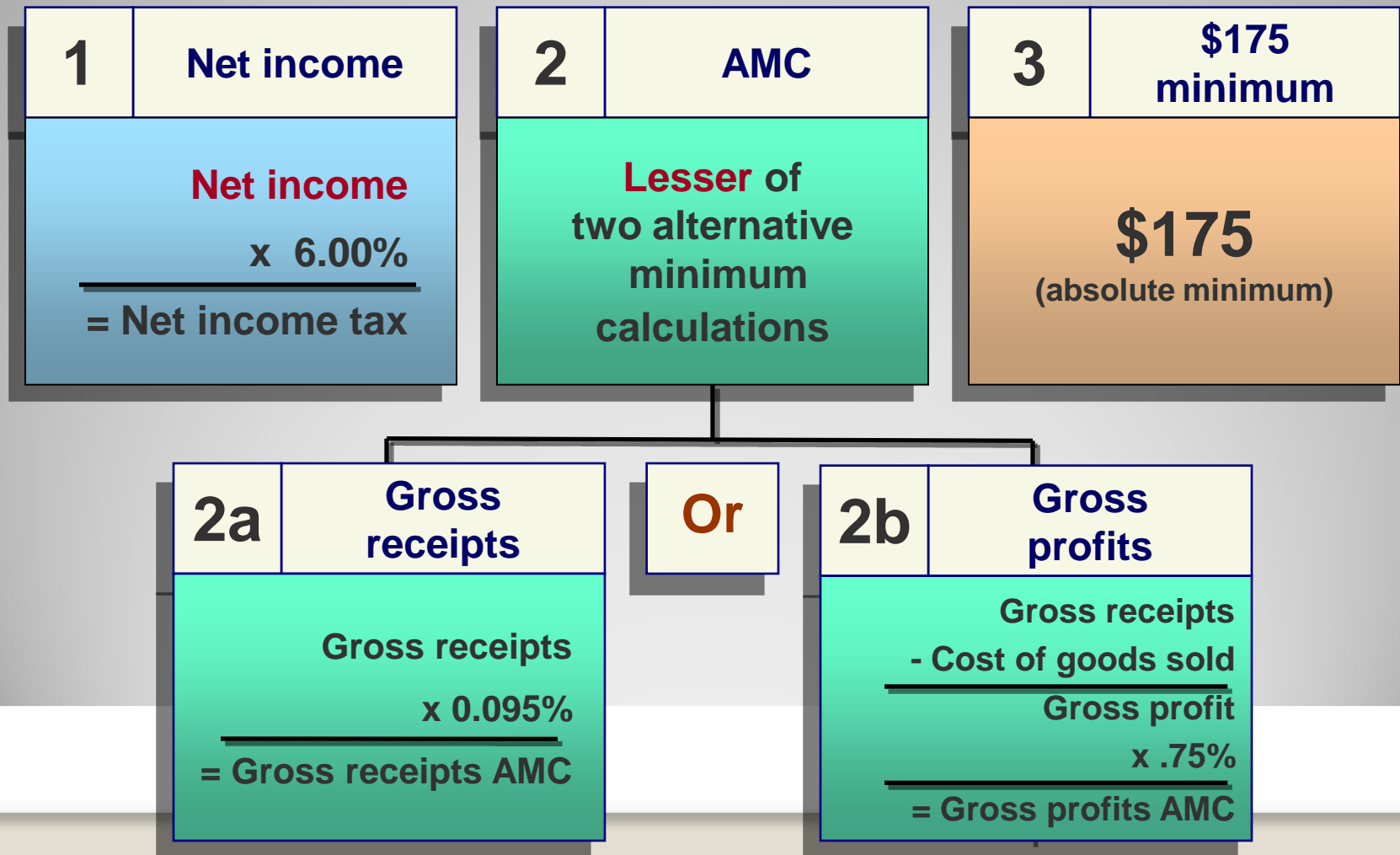


Corporation Income



Features of the original AMC, includes c-corps and LLE (including LLC and partnerships)

Tax liability: **Greater** of 1, 2 or 3



After HB 1: Corporations pay Corporate income tax, LLET pay individual income tax

Tax liability: Pay Both the LLET and Income, but get a credit from LLET against income tax

1

Net income

Net income

x 6.00%

= Net income tax

And

2

LLET

Lesser of
two alternative
minimum
calculations

2a

Gross
receipts

Gross receipts

x 0.095%

= Gross receipts AMC

Or

2b

Gross
profits

Gross receipts

- Cost of goods sold

Gross profit

x .75%

= Gross profits AMC

Non-refundable Credit

House Bill 1 – 2006 Special Session

Credit for LLET given on Income Tax

1	Limited Liability Entity Tax
Lesser of two calculations with a minimum of \$175	

2	Net income
$\begin{array}{r} \text{Net income} \\ \times 6.00\% \\ \hline = \text{Net income tax} \end{array}$	

Less	LLET Tax Credit
Credit = LLET Tax less \$175 minimum. Limited to use against tax on income from the entity that paid the tax. Non-refundable. Does not carry forward.	

Limited Liability Entity Tax

Imposition in KRS 141.0401

Tax Base: This tax applies to all entities which provide limited liability to their owners and is assessed for the privilege of doing business in Kentucky.

Tax Rate:

- ✓ Using the gross receipts method, the tax rate is nine and one-half cents per \$100 of gross receipts
- ✓ Using the gross profits method, the tax rate is seventy-five cents per \$100 of gross profits.
- ✓ If gross receipts or gross profits are less than \$3.0 million, the minimum tax of \$175 is due.
- ✓ For taxpayers with gross receipts between \$3.0 million and \$6.0 million, a partial exemption is given.

Total Receipts:

Actual FY2011	\$215.7 million
Tax Expenditures for FY2012	\$116.1 million

Property Taxes

Imposition in KRS Chapter 132

Tax Base: This tax applies to all entities which provide limited liability to their owners and is assessed for the privilege of doing business in Kentucky.

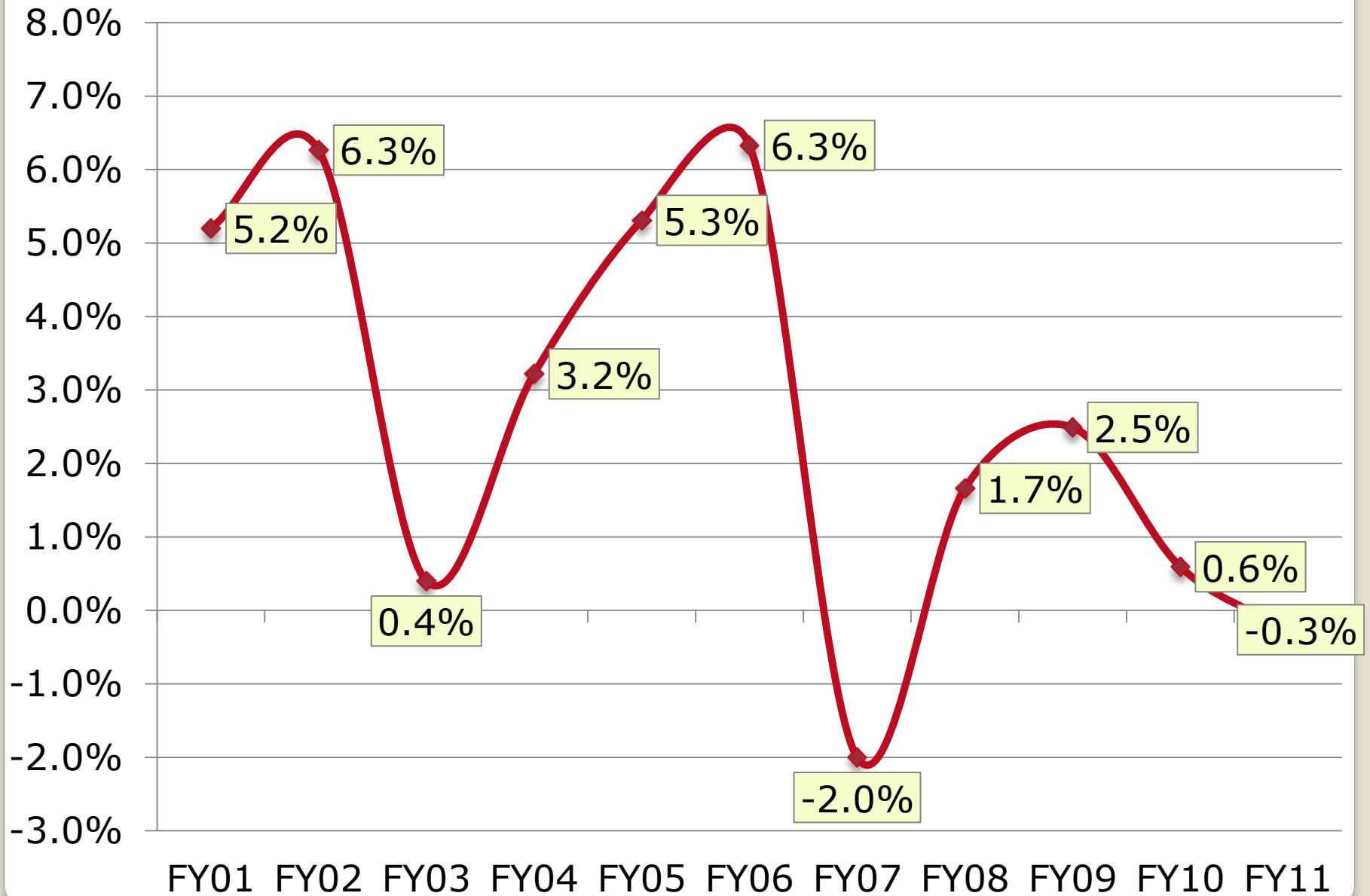
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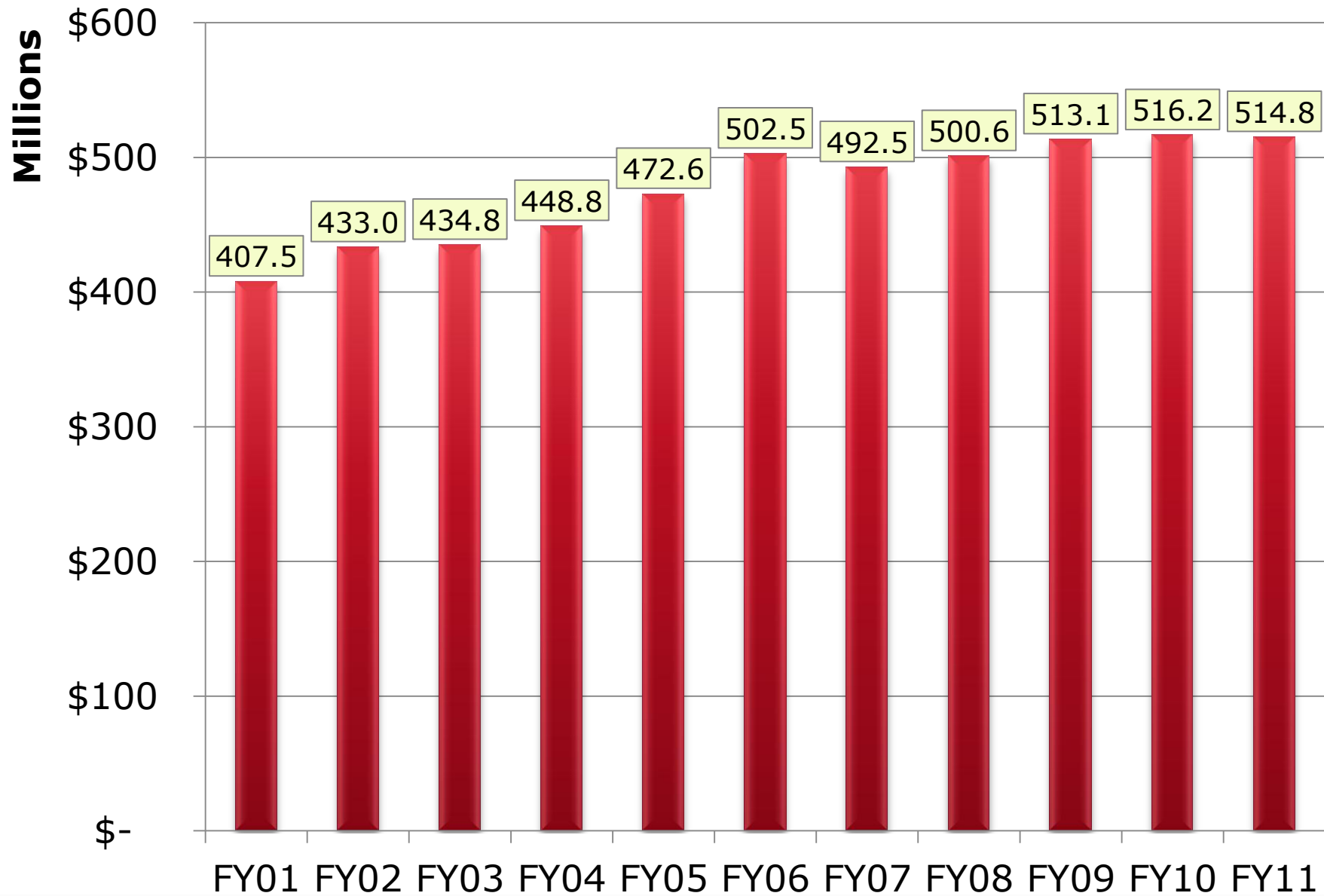
Total Receipts:

Actual FY2011	\$215.7 million
Tax Expenditures for FY2012	\$116.1 million

Property



Property



Quick Facts: Property Tax on Motor Vehicles

- ✓ **State Rate is 45 ¢ per \$100 in valuation**
- ✓ **Valuation method: 100% Trade-in value NADA (HB 74, 1998)**
- ✓ **Assessment Date: January 1**
- ✓ **Payment Due: End of the birthday month for registered primary owner**
- ✓ **County, cities, schools, and special districts may also levy property taxes on motor vehicles**
- ✓ **State also assesses a registration fee, which is due when property taxes are paid. Annual fee was increased in HB 380 from \$15 to \$21 effective 1/1/07**
- ✓ **A repeal or reduction of the state portion of the vehicle property tax will negatively impact county clerks, who receive 4% of the value of property taxes collected.**

Constitutional amendment of 1998

“Notwithstanding the provisions of Sections 3, 172, and 174 of this Constitution to the contrary, the General Assembly may provide by law an exemption for all or any portion of the property tax for any class of personal property. “

Tobacco Taxes

Imposition in KRS Chapter 138

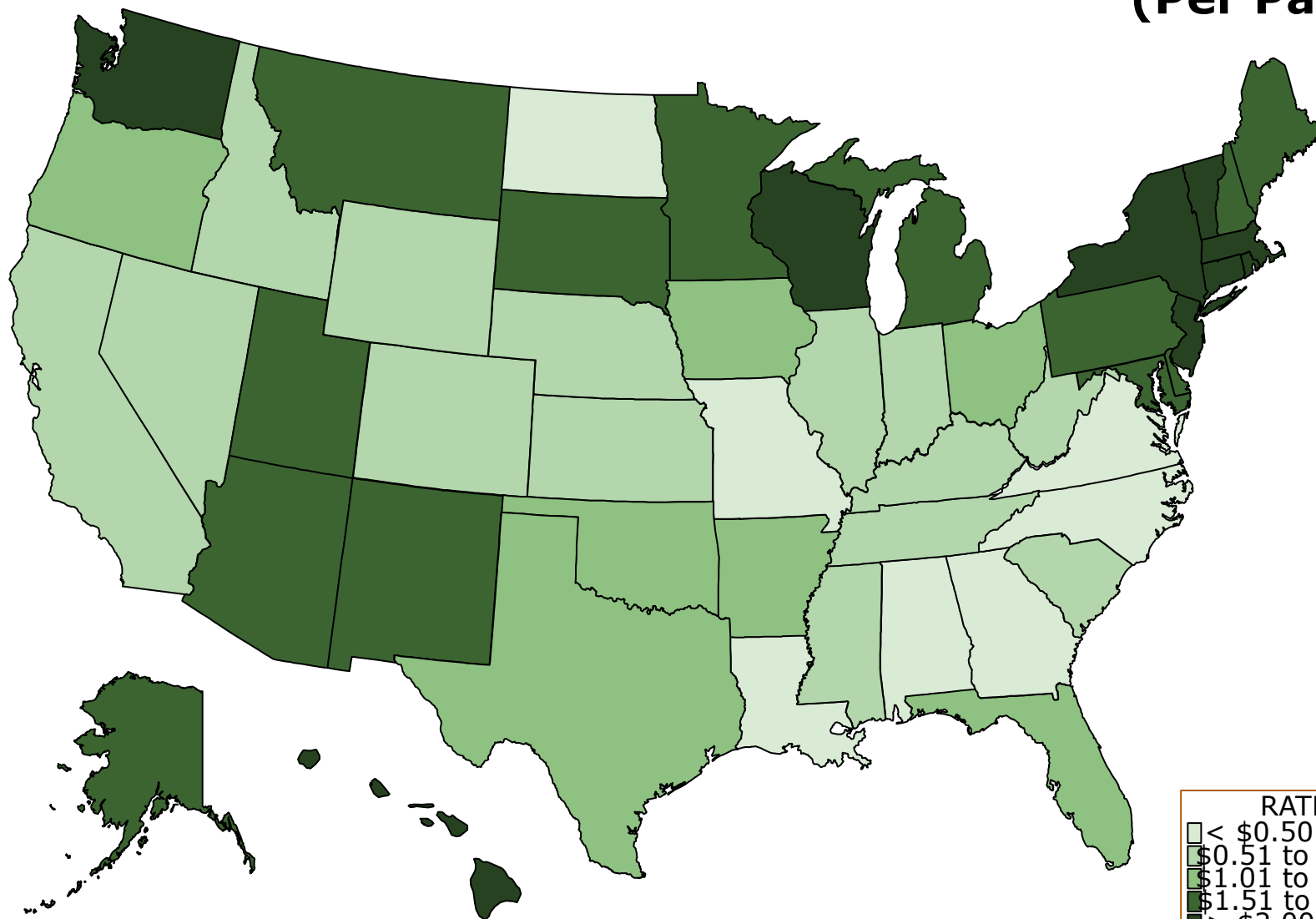
Tax Base: Both the cigarette excise tax and the cigarette surtax are paid through the purchase of stamps or meter units from the Department of Revenue. On other tobacco products, the wholesale taxes are paid at the point of the wholesale sales.

Tax Rate: Both the cigarette excise tax and the cigarette surtax, is sixty (60) cents per package of twenty cigarettes. The other tobacco products tax is 15.0 percent of gross receipts. The tax on snuff is 19 cents per unit.

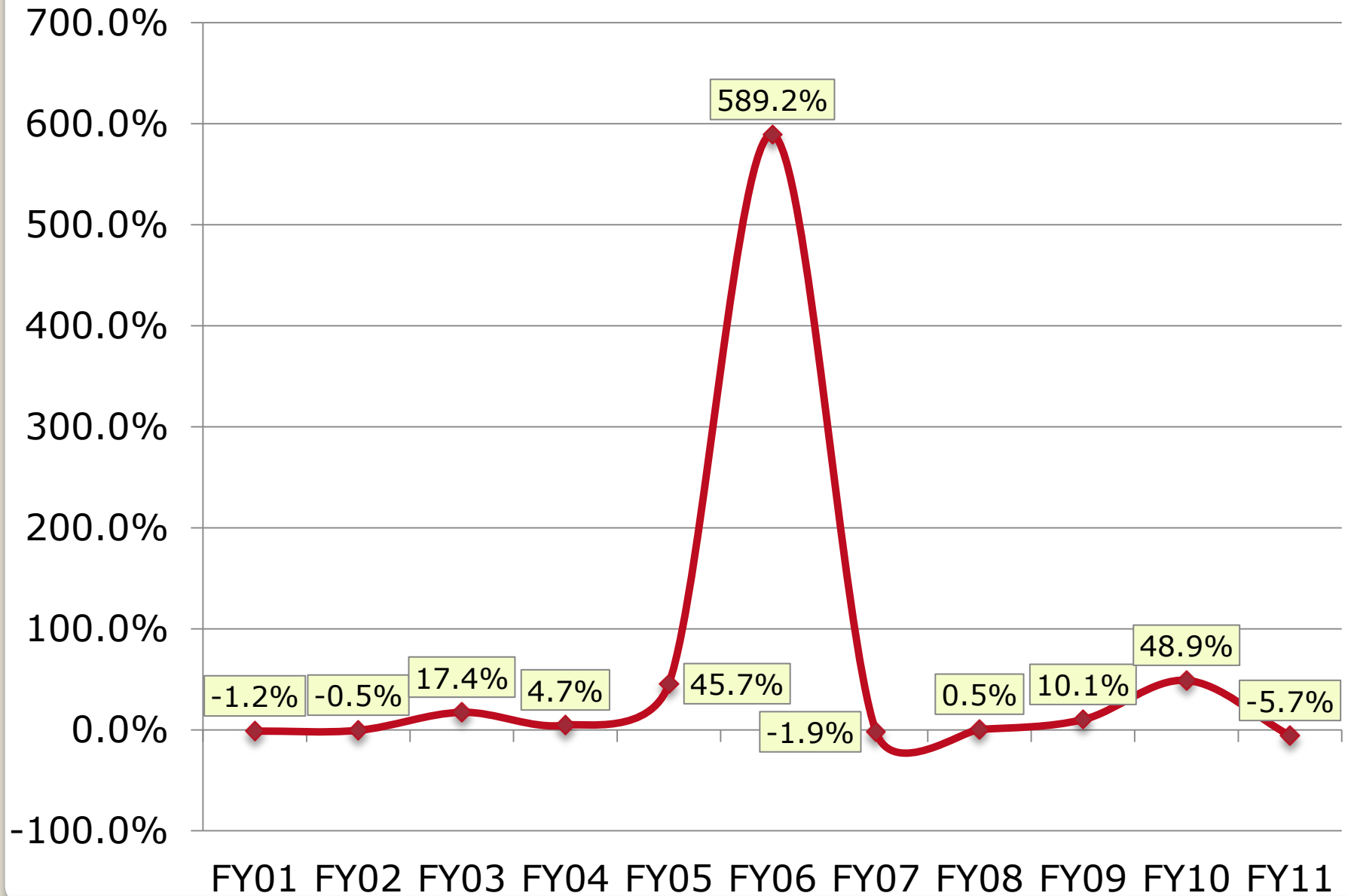
Tax Receipts:

Actual FY2011	\$283.8 million
Tax Expenditures for FY2012	\$1.3 million

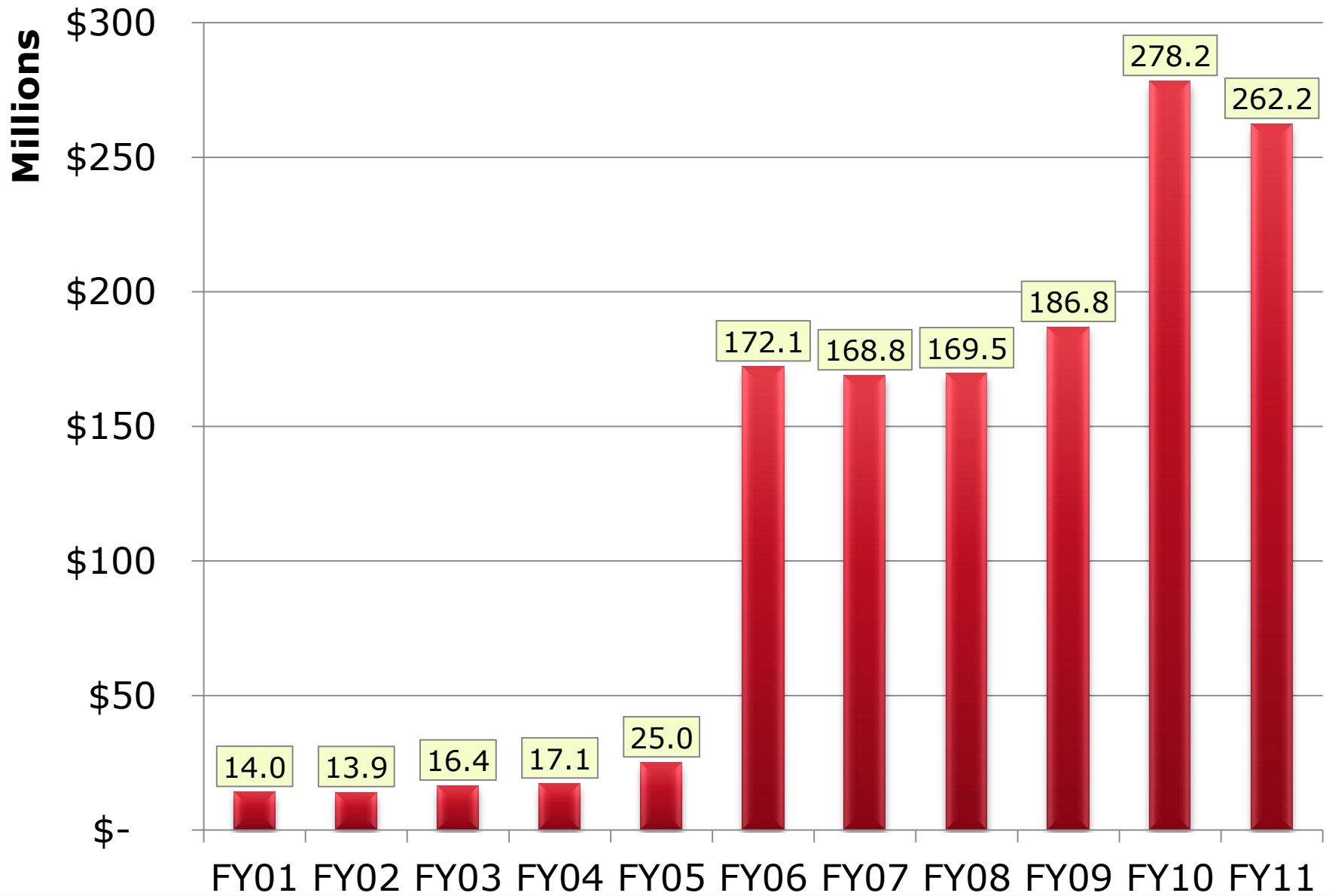
Cigarette Tax (Per Pack)



Cigarette



Cigarette



Cigarette Tax (per pack)

STATE	RATE	STATE	RATE	STATE	RATE
Alabama	\$ 0.43	Kentucky	\$ 0.60	N. Dakota	\$ 0.44
Alaska	\$ 2.00	Louisiana	\$ 0.36	Ohio	\$ 1.25
Arizona	\$ 2.00	Maine	\$ 2.00	Oklahoma	\$ 1.03
Arkansas	\$ 1.15	Maryland	\$ 2.00	Oregon	\$ 1.18
California	\$ 0.87	Mass.	\$ 2.51	Penn.	\$ 1.60
Colorado	\$ 0.84	Michigan	\$ 2.00	R. Island	\$ 3.46
Connecticut	\$ 3.40	Minnesota	\$ 1.59	S. Carolina	\$ 0.57
Delaware	\$ 1.60	Mississippi	\$ 0.68	S. Dakota	\$ 1.53
Florida	\$ 2.86	Missouri	\$ 0.17	Tennessee	\$ 0.62
Georgia	\$ 1.34	Montana	\$ 1.70	Texas	\$ 1.41
D.C.	\$ 0.37	Nebraska	\$ 0.64	Utah	\$ 1.70
Hawaii	\$ 3.20	Nevada	\$ 0.80	Vermont	\$ 2.62
Idaho	\$ 0.57	N. Hampshire	\$ 1.68	Virginia	\$ 0.30
Illinois	\$ 0.98	New Jersey	\$ 2.70	Washington	\$ 3.03
Indiana	\$ 1.00	N. Mexico	\$ 1.66	W. Virginia	\$ 0.55
Iowa	\$ 1.36	N. York	\$ 4.35	Wisconsin	\$ 2.52
Kansas	\$ 0.79	N. Carolina	\$ 0.45	Wyoming	\$ 0.60

Spirits Tax (per gallon)

STATE	RATE	STATE	RATE	STATE	RATE
Alabama	\$ 18.61	Kentucky	\$ 6.85	N. Dakota	\$ 4.66
Alaska	\$ 12.80	Louisiana	\$ 2.50	Ohio	\$ 10.16
Arizona	\$ 3.00	Maine	\$ 6.15	Oklahoma	\$ 5.56
Arkansas	\$ 6.52	Maryland	\$ 4.45	Oregon	\$ 23.03
California	\$ 3.30	Mass.	\$ 4.05	Penn.	\$ 7.57
Colorado	\$ 2.28	Michigan	\$ 13.24	R. Island	\$ 3.75
Connecticut	\$ 5.40	Minnesota	\$ 8.88	S. Carolina	\$ 5.42
Delaware	\$ 3.75	Mississippi	\$ 8.43	S. Dakota	\$ 4.68
Florida	\$ 5.43	Missouri	\$ 2.00	Tennessee	\$ 4.46
Georgia	\$ 6.50	Montana	\$ 9.45	Texas	\$ 2.40
D.C.	\$ 3.79	Nebraska	\$ 3.75	Utah	\$ 11.63
Hawaii	\$ 5.98	Nevada	\$ 3.60	Vermont	\$ 0.32
Idaho	\$ 11.28	N. Hampshire	\$ -	Virginia	\$ 20.91
Illinois	\$ 8.55	New Jersey	\$ 5.50	Washington	\$ 26.70
Indiana	\$ 2.68	N. Mexico	\$ 6.06	W. Virginia	\$ 2.55
Iowa	\$ 13.18	N. York	\$ 6.44	Wisconsin	\$ 3.25
Kansas	\$ 2.50	N. Carolina	\$ 13.03	Wyoming	\$ 0.83

Table Wine Tax (per gallon)

STATE	RATE	STATE	RATE	STATE	RATE
Alabama	\$ 1.700	Kentucky	\$ 0.500	N. Dakota	\$ 1.060
Alaska	\$ 2.500	Louisiana	\$ 0.110	Ohio	\$ 0.320
Arizona	\$ 0.840	Maine	\$ 0.600	Oklahoma	\$ 0.720
Arkansas	\$ 1.390	Maryland	\$ 1.400	Oregon	\$ 0.670
California	\$ 0.200	Mass.	\$ 0.550	Penn.	\$ -
Colorado	\$ 0.320	Michigan	\$ 0.510	R. Island	\$ 0.600
Connecticut	\$ 0.720	Minnesota	\$ 1.210	S. Carolina	\$ 1.080
Delaware	\$ 0.970	Mississippi	\$ -	S. Dakota	\$ 1.210
Florida	\$ 1.630	Missouri	\$ 0.420	Tennessee	\$ 1.270
Georgia	\$ 2.250	Montana	\$ 1.060	Texas	\$ 0.200
D.C.	\$ 1.510	Nebraska	\$ 0.950	Utah	\$ -
Hawaii	\$ 1.380	Nevada	\$ 0.700	Vermont	\$ 0.550
Idaho	\$ 0.450	N. Hampshire	\$ -	Virginia	\$ 1.510
Illinois	\$ 1.390	New Jersey	\$ 0.880	Washington	\$ 0.880
Indiana	\$ 0.470	N. Mexico	\$ 1.700	W. Virginia	\$ 1.000
Iowa	\$ 1.750	N. York	\$ 0.300	Wisconsin	\$ 0.250
Kansas	\$ 0.300	N. Carolina	\$ 0.790	Wyoming	\$ -

Beer Tax (per gallon)

STATE	RATE	STATE	RATE	STATE	RATE
Alabama	\$ 1.050	Kentucky	\$ 0.080	N. Dakota	\$ 0.390
Alaska	\$ 1.070	Louisiana	\$ 0.320	Ohio	\$ 0.180
Arizona	\$ 0.160	Maine	\$ 0.350	Oklahoma	\$ 0.400
Arkansas	\$ 0.310	Maryland	\$ 0.440	Oregon	\$ 0.080
California	\$ 0.200	Mass.	\$ 0.110	Penn.	\$ 0.080
Colorado	\$ 0.080	Michigan	\$ 0.200	R. Island	\$ 0.110
Connecticut	\$ 0.230	Minnesota	\$ 0.480	S. Carolina	\$ 0.770
Delaware	\$ 0.160	Mississippi	\$ 0.430	S. Dakota	\$ 0.270
Florida	\$ 0.560	Missouri	\$ 0.060	Tennessee	\$ 0.140
Georgia	\$ 0.480	Montana	\$ 0.140	Texas	\$ 0.200
D.C.	\$ 1.010	Nebraska	\$ 0.310	Utah	\$ 0.410
Hawaii	\$ 0.930	Nevada	\$ 0.160	Vermont	\$ 0.270
Idaho	\$ 0.150	N. Hampshire	\$ 0.300	Virginia	\$ 0.260
Illinois	\$ 0.230	New Jersey	\$ 0.120	Washington	\$ 0.260
Indiana	\$ 0.120	N. Mexico	\$ 0.410	W. Virginia	\$ 0.180
Iowa	\$ 0.190	N. York	\$ 0.140	Wisconsin	\$ 0.060
Kansas	\$ 0.180	N. Carolina	\$ 0.530	Wyoming	\$ 0.020

RATE

- < \$3
- \$3 to \$5
- \$5 to \$7
- \$7 to \$9
- \$9 or more

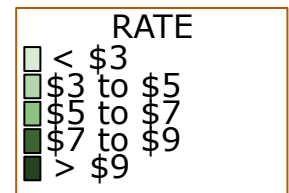
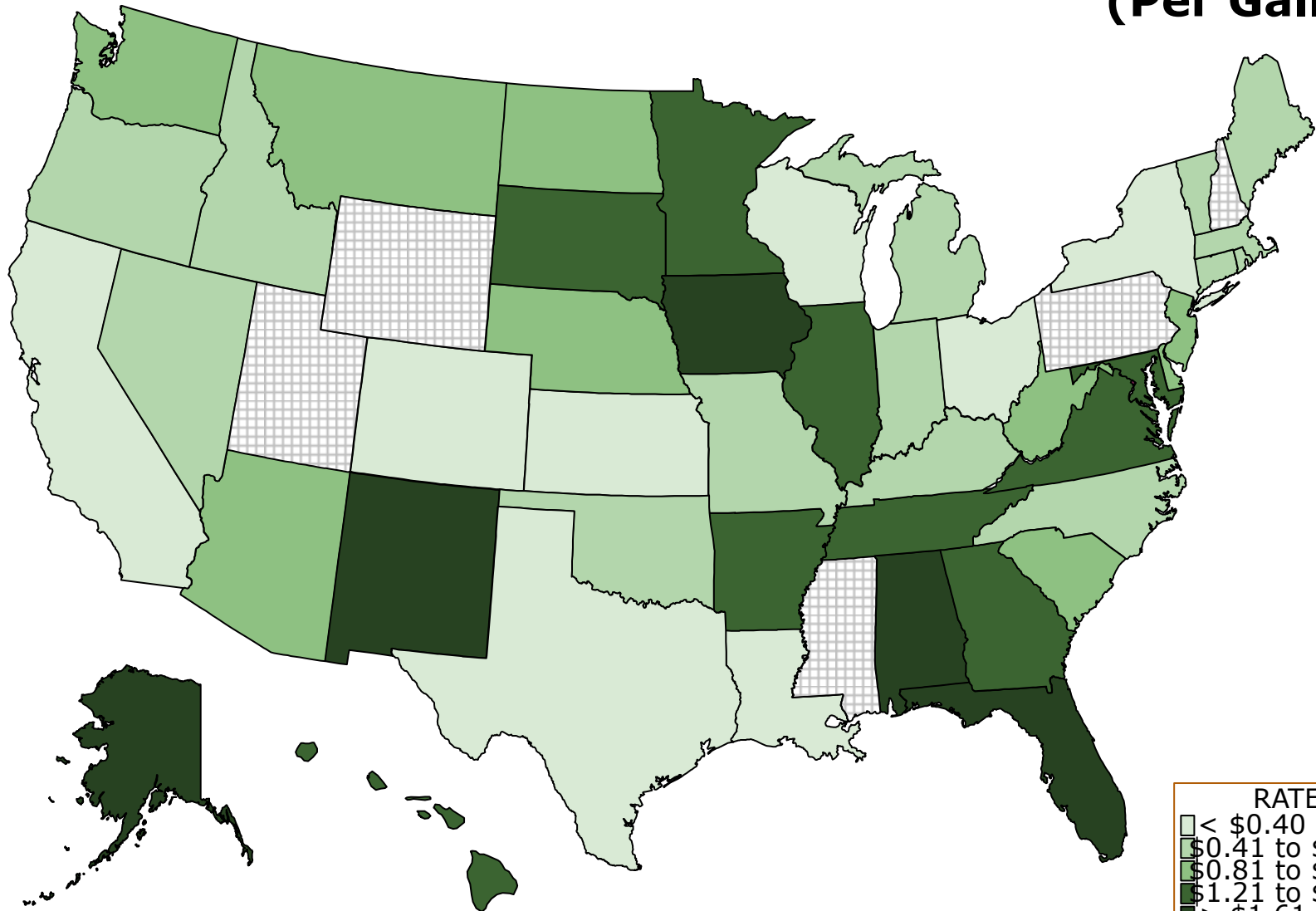
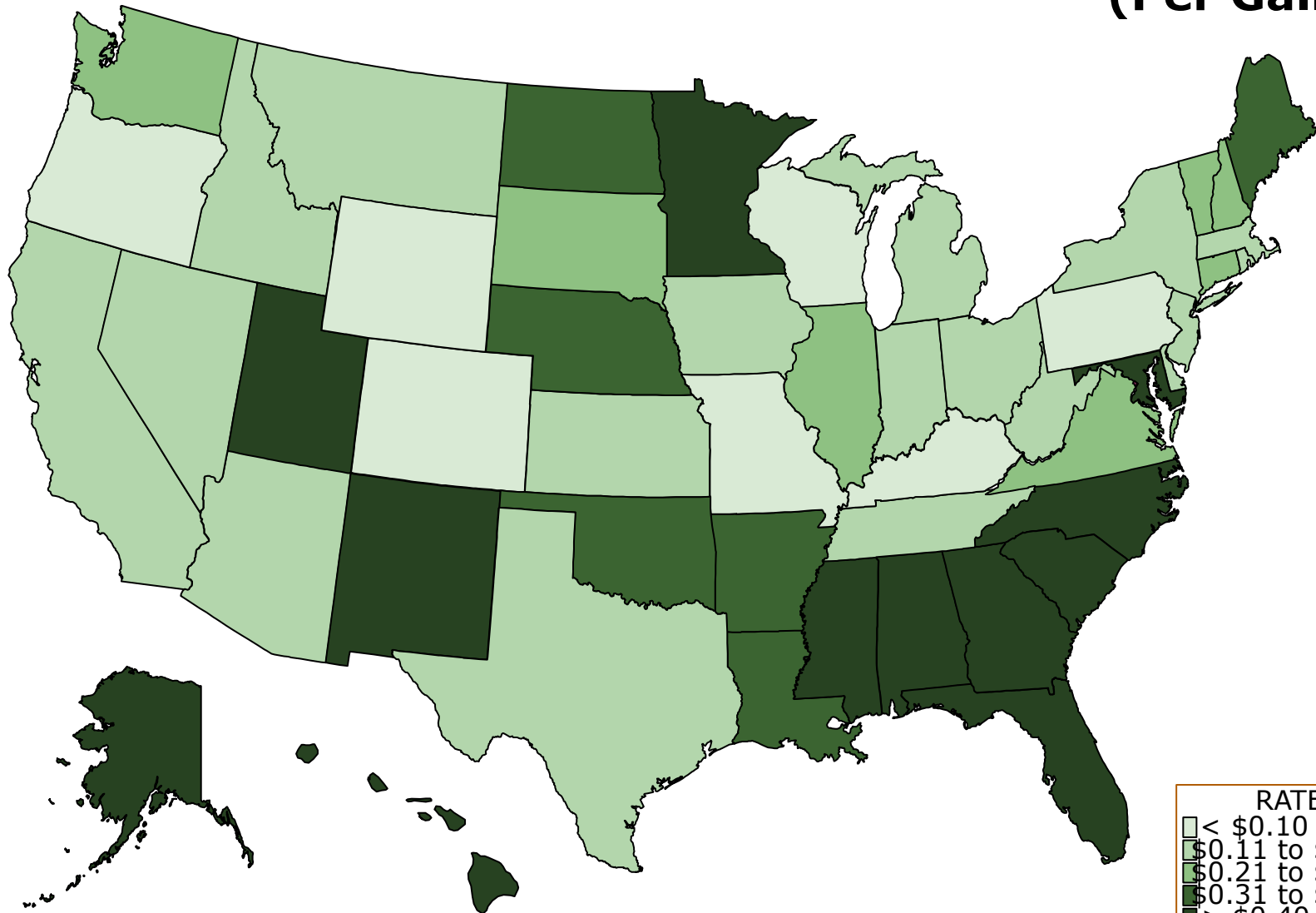


Table Wine Tax (Per Gallon)



RATE	
< \$0.40	
\$0.41 to \$0.80	
\$0.81 to \$1.20	
\$1.21 to \$1.60	
> \$1.61	

Beer Tax (Per Gallon)

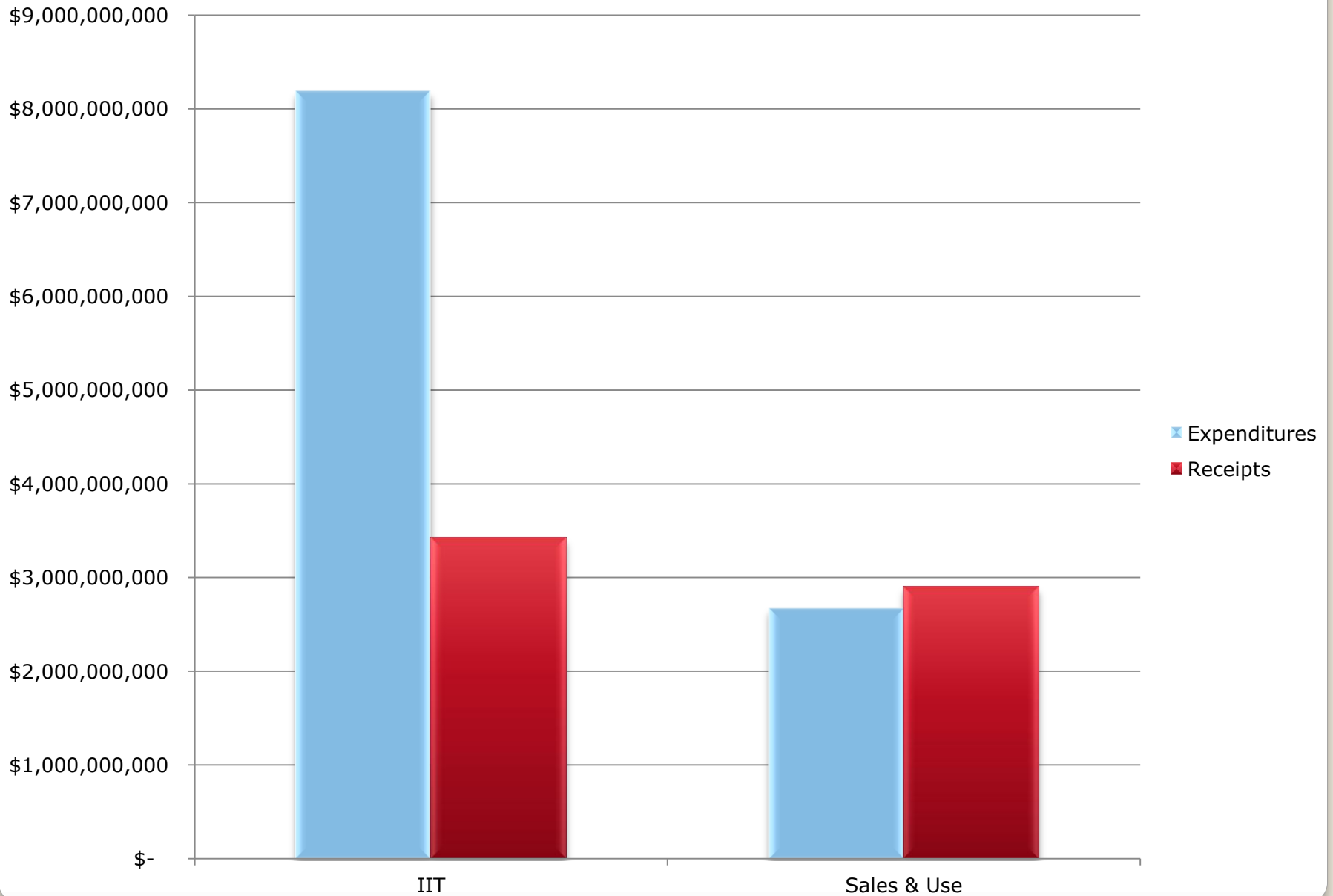


RATE	
< \$0.10	
\$0.11 to \$0.20	
\$0.21 to \$0.30	
\$0.31 to \$0.40	
> \$0.40	

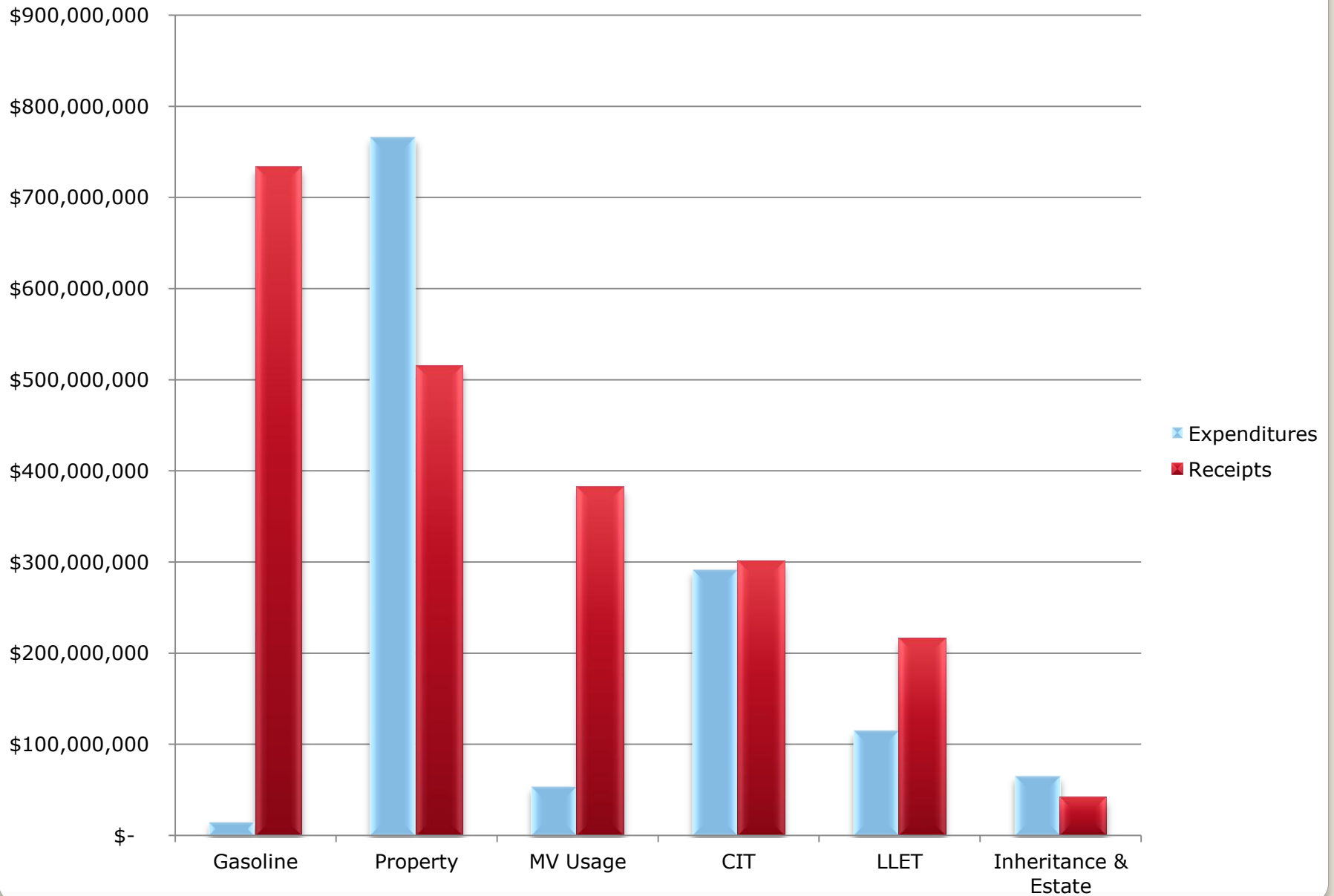
Gasoline Tax (per gallon)

STATE	RATE	STATE	RATE	STATE	RATE
Alabama	\$ 0.209	Kentucky	\$ 0.278	N. Dakota	\$ 0.230
Alaska	\$ 0.008	Louisiana	\$ 0.200	Ohio	\$ 0.280
Arizona	\$ 0.190	Maine	\$ 0.315	Oklahoma	\$ 0.170
Arkansas	\$ 0.218	Maryland	\$ 0.235	Oregon	\$ 0.310
California	\$ 0.486	Mass.	\$ 0.235	Penn.	\$ 0.323
Colorado	\$ 0.220	Michigan	\$ 0.394	R. Island	\$ 0.330
Connecticut	\$ 0.486	Minnesota	\$ 0.281	S. Carolina	\$ 0.168
Delaware	\$ 0.230	Mississippi	\$ 0.188	S. Dakota	\$ 0.240
Florida	\$ 0.235	Missouri	\$ 0.173	Tennessee	\$ 0.214
Georgia	\$ 0.350	Montana	\$ 0.278	Texas	\$ 0.200
D.C.	\$ 0.294	Nebraska	\$ 0.276	Utah	\$ 0.245
Hawaii	\$ 0.471	Nevada	\$ 0.331	Vermont	\$ 0.261
Idaho	\$ 0.250	N. Hampshire	\$ 0.196	Virginia	\$ 0.198
Illinois	\$ 0.389	New Jersey	\$ 0.145	Washington	\$ 0.375
Indiana	\$ 0.389	N. Mexico	\$ 0.189	W. Virginia	\$ 0.334
Iowa	\$ 0.220	N. York	\$ 0.490	Wisconsin	\$ 0.329
Kansas	\$ 0.250	N. Carolina	\$ 0.392	Wyoming	\$ 0.140

Receipts vs. Expenditures



Receipts vs. Expenditures



	Sales & Use Proposals	Recommendation by:	Status:
1	Broaden the sales tax to include most services	Common recommendation	selective services
2	Allow food to remain exempt from the tax.	Commission on Tax Policy, Others	Remains exempt.
3	Eliminate special exemptions offered to certain industries, including agriculture industry	Commission on Tax Policy, Bill Fox	No action
4	Achieve more uniform taxation of final consumption	Long-Term Policy Research, Bill Fox	No action
5	Eliminate double-taxation of intermediate-goods	Long-Term Policy Research, Bill Fox	No action
6	Encourage the Congressional delegation to support a new nexus standard	Bill Fox	No action
7	Impose a sales tax collection responsibility on dot-com companies that are part of the same corporate structure	Bill Fox	Implemented
8	Investigate alternatives for enhancing use tax compliance through improved tax auditing	Bill Fox	Implemented for certain industries
9	Impose tax on unbundled natural gas transactions and dot.com affiliates of retailers	Governor Patton's Administration	Implemented
10	Join the Streamlined Sales and Use Tax Initiative	Governor Patton's Administration	Implemented
11	Limit vendor compensation at \$1,500 per reporting period	Governor Patton's Administration	Implemented
12	Raise the tax rate to 7%, legalize Video Lottery Terminals, then roll-back the sales tax to 6% after 2 years	Governor Patton's Administration	No action
13	Eliminate the tax on switch access fees paid by communications companies	Governor Patton's Administration	Implemented
14	Assess sales tax on DBS services at a 7% tax rate	Governor Patton's Administration	Implemented

	Property Proposals	Recommendation by:	Status:
1	Repeal the Intangible Property Tax	1982 Revenue Cabinet, Commission on Tax Policy, Governor Patton's Admin.	Implemented
2	Exempt unmined coal	Commission on Tax Policy	No action
3	Tax all real property at full state and local rates	Commission on Tax Policy	No action
4	Modify House Bill 44 and freeze the real property tax rate	Commission on Tax Policy, Bill Fox, Governor Patton's Administration	No action
5	Make PVAs part of the Revenue Cabinet merit system and turn over collection of property taxes to the Revenue Cabinet	Commission on Tax Policy	No action
6	Eliminate burdensome administration – PVAs and Sheriffs	Commission on Tax Policy	No action
7	Repeal the public service corporation (PSC) property tax and subject these corporations to the Kentucky License Tax	Commission on Tax Policy	The License Tax is repealed
8	Eliminate the state property tax on motor vehicles/boats	Bill Fox, Governor Patton's Administration	No action
9	Exclude new property from the rate setting calculations	Governor Patton's Administration, Bill Fox	Implemented

Taxation Boot Camp

Presentation to the
Governor's Blue Ribbon Commission on Tax
Reform

06 March 2012

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